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NATIONAL AFFAIRS, POLICY

Suiting State-Owned Enterprises to Market Economy

93CE0755A Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 5, 20 May 93 pp 24-31

[Article by Fang Xiangdong (2455 0686 2639), Institute of Economic Research, State Statistical Bureau: "Enterprise Reform Under the Existing Economic Pattern"]

[Text] 1. System Reform During the 1980s and the Current Economic Pattern

China's economic system reform during the 1980s exhibited one important characteristic, namely a gradual evolution from the mostly central government-inspired reform of the early reform period to a both government and grassroots level economic entities-inspired reform. In addition, a transition from an outwardly driven reform to an endogenous transformation occurred. One might say that reform during the 1980s occurred in two different realms. One was within the plan system framework where a gradual reform of the traditional economic system represented by enterprises under ownership of the whole people was tried out. Although this reform smacked of being driven by the economic climate (particularly in its latter stages), mostly it may be regarded as having been instigated by the government. It was an enterprise system reform in which invigoration of enterprises under ownership of the whole people was the key link. In this reform, pilot projects for the expansion of enterprises' authority, the enterprise economic responsibility system, and a two step substitution of tax payments for the surrendering of profits, and enterprise contract management responsibility systems were run, and a series of related price system and macroeconomic administrative system reforms were conducted. This produced a definite increase in the degree of market orientation of the traditional economic system, and "vigor" also increased. The second reform realm was outside the traditional economic system in the newly emerging economic system that had developed from nothing and was growing. Although this new economic system grew and operated under direction of state plans and policies, it had a more spontaneous and endogenous character. This was the rapid development since reform and opening to the outside world of township and town enterprises, individually owned and privately owned

enterprises, and three kinds of partially or wholly foreign-owned enterprises. On the basis of the foregoing distinctions, the operating mechanism and the current circumstances of China's enterprises under ownership of the whole people, and its city and town collective enterprises are relatively similar. One category may be termed "traditional enterprises," and the remainder may be termed "nontraditional enterprises."

The reform and opening to the outside world of the 1980s evoked great enthusiasm for development of the economy on the part of all economic entities. On the one hand, the nontraditional enterprises used their own vigor and vitality to construct areas for flourishing economic development. On the other hand, the traditional enterprise system also underwent definite change: Enterprises' authority to make their own decisions steadily widened, enterprises' self-directed actions increasingly becoming the basic force in the operation of the existing economy. Enterprises gradually became more independent, their profit motivation markedly increasing. The role of the market mechanism rapidly came to play a greater role in enterprises, market regulation, together with plan regulation, it became an economic regulating force. These changes in the traditional enterprise system imbued enterprises with substantial vim and vigor for self-development. It released the growth potential of the economy that the traditional system had long suppressed. Consequently, reform promoted high-speed economic growth. It produced a "golden age" of economic growth and development in China during the 1980s.

However, during the early 1990s marked changes occurred in the country's economic pattern by comparison with the previous decade. The most important change was the rapid growth of nontraditional enterprises and the relatively slow growth of traditional enterprises. This meant that the pattern during the beginning of reform, when traditional enterprises held absolute dominance, changed into a new one in which diverse economic entities and diverse forms of ownership existed at the same time. By 1991, output value of industries under ownership of the whole people declined to 52.9 percent of total industrial output value. Collective industries accounted for 35.7 percent, individually owned industries accounted for 5.7 percent, and industries under other forms of ownership (including three kinds of partially or wholly foreign-owned enterprises, and enterprises under a mixed form of ownership) accounted for nearly 5.7 percent (see table 1).

Changes in Percentage of Output Value of Industrial Enterprises of Different Kinds

	All Industries	Industries Under Ownership of the Whole People	Collective Industries	Township and Town Industries as a Part of Collective Industries	Individually Owned Industries	Other Industries
1980	100	76.0	23.5	9.9	0.0	0.5
1985	100	64.9	32.1	17.3	1.8	1.2
1991	100	52.9	35.7	25.6	5.7	5.7
1980-1991	16.7	13.0	21.2	27.3	99.4	46.2

Average Speed of Increase Note 1: Information on this table is figured at current year prices and the same applies hereinafter. Note 2: Data Source: China Statistical Yearbook 1992, pp 390, 406, 437, and the same applies hereinafter.

The formation of the new economic pattern sprang from differences in the speed of growth during the 1980s of enterprises of different kinds, and the crucial element behind this speed of growth was efficiency, or what people customarily term "vigor." Because of the differences in "vigor" of different kinds of enterprises, the basic trend of economic growth in China during the 1980s was one of gradual decline in the contribution to economic growth of traditional enterprises, most of

which were enterprises under ownership of the whole people, and a marked rise in the contribution to economic growth of nontraditional enterprises. During certain specific periods, in particular, such as the period of improving the economic environment and rectifying the economic order, township and town enterprises, three kinds of partially or wholly foreign-owned enterprises, and individually owned enterprises became the main force powering economic growth (table 2).

Contribution to Total Industrial Growth of Different Kinds of Industries

	Industries Under Ownership of the Whole People	Collective Industries	Township and Town Industries as a Part of Collective industries	Individual Industries	Other Kinds of Industries
1980	51.2	43.5	18.2	0.2	5.2
1985	49.5	40.7	20.7	7.9	1.9
1989	35.8	44.8	28.3	7.0	12.4
1990	30.0	38.3	31.7	12.2	19.5
1991	43.7	36.1	54.6	7.4	12.8
1980-1991	47.8	38.4	29.1	7.0	6.8

When the general statistics presented in tables 1 and 2 are presented in terms of "traditional enterprises" and "nontraditional enterprises" as defined in this article (table 3), the foregoing economic pattern is even more striking. The rise in the percentage of collective industries stems entirely from rural collective enterprises, i.e., the tremendous increase in township and town enterprises. After being gradually pushed in the direction of markets, city and town collective enterprises were not

only constitutionally unfitted for the battering that markets delivered, but they also lost the protection of the former plan system. Thus, their development was poorer than that of enterprises under ownership of the whole people. Speed of growth of city and town collective enterprises in 1991 was down 21.9 percent from 1990. Thus, the contribution of collective industries to economic growth was made solely by township and town enterprises.

Table 3. (Percent)

Percentage of Industrial Output Value			Contribution to Industrial Growth		
	Traditional Enterprises	Nontraditional Enterprises		Traditional Enterprises	Nontraditional Enterprises
1980	89.6	10.4	1980	76.5	23.5
1985	79.7	20.3	1985	69.5	30.5
1991	63.0	37.0	1991	25.2	74.8
1980-1991	13.0	31.0	1980-1991	57.1	42.9

Average Growth Speed

The current economic pattern shows that despite major reform gains in two areas during the 1980s, the rise in vigor in traditional enterprises that reform brought was relative to before reform, i.e., enterprises under ownership of the whole people were more "vigorous" than previously. For the national economy as a whole, "vigor" in traditional enterprises was markedly less than in nontraditional enterprises. Traditional enterprises became increasingly unable to meet the requirements of economic development, and of reform and opening to the outside world. Nevertheless, for historical reasons, large and medium size traditional enterprises were still the cream of China's industry.

Not only did many conditions get in the way of nontraditional enterprises naturally taking the place of enterprises under ownership of the whole people, but the process was excessively slow as well. Consequently, the insufficient "vigor" of enterprises under ownership of the whole people, which are the backbone of the national economy and the country's largest industries, impaired China's industrialization and modernization. From the angle of reform, however, if traditional enterprises retained their former condition, the building of a socialist market economy would become a dead letter. Therefore, the nationwide consensus was that invigoration of enterprises under ownership of the whole people, transforming their operating mechanisms, was a priority task.

2. Analysis of China's Enterprise System

Economists have virtually no differences about the reasons for the "lack of vigor" of enterprises under ownership of the whole people. In a nutshell, they are two: First, the climate for survival and development differs for enterprises under ownership of the whole people and for nontraditional enterprises. They carry excessive tax burdens and social responsibilities. A second greater and more pervasive reason is that the internal mechanism of state-owned enterprises is unable to adjust to the requirements of a market economy. This is manifested mostly in enterprises being unable to make their own operating decisions, inequitable easing of budget restraints, an egalitarian distribution system, an "iron armchair" system in work assignments, etc. As to how to "invigorate" enterprises under ownership of the whole people, some comrades suggest use of the "Enterprise Code," and "Regulations for Transforming the Operating Mechanism of Enterprises Under Ownership of the Whole People" to increase enterprises' decisionmaking authority. Realizing the limitations of further delegation of authority alone, more comrades believed that transformation of the operating mechanism of enterprises under ownership of the whole people is crucial, e.g., introducing the township and town enterprise mechanism to increase the "vigor" of enterprises under ownership of the whole people in the market economy. Alternatively, they recommended the reconstitution of the state-owned enterprise system using market economy principles, making enterprises under ownership of the whole people truly independent principal market entities, etc. The problem is that enterprise mechanisms are a function of the enterprise system. It is impossible to found a nonstate-owned enterprise system that is fully consistent with market economy conditions on a system of enterprise ownership by the whole people. Moreover, the so-called "transformation of the operating mechanism of enterprises under ownership of the whole people" is absurd. The mechanism of an enterprise under ownership of the whole people is inherent in the enterprise. If the mechanism is transformed, the enterprise is no longer an enterprise under ownership of the whole people. Therefore, enterprises under ownership of the whole people in the traditional economy that are looking for a feasible way out of their predicament will have to analyze thoroughly the existing enterprise system first of all.

The term enterprise system has two levels of meaning: the enterprise equity system and the ownership on which this equity system is based. A different ownership basis produces a different structure and equity arrangements, which create differences in the enterprise mechanism (or behavior) in turn. The two fundamental problems of efficiency and development that enterprises face are as follows: supervision and the use of (or distribution of) profits within enterprises. These two problems may be solved through either a proper

equity structure or equity arrangements. In this sense, enterprise efficiency and development problems are problems in arranging the enterprise equity system. The several main kinds of enterprise equity systems used throughout the world show that in the enterprise ownership system, the owner (i.e., the enterprise owner) personally supervises producers through residual claim, thereby solving the enterprise efficiency problem. (Footnote) (By residual claim is meant ownership of surplus earnings (profits) after payment of wages to producers. This expresses ownership rights.) At the same time, however, the limitations of single enterprise owner operating capabilities (supervisory capabilities) limit enterprise expansion. The advent of the stock share system produced the modern share corporation system. It solved the supervision problem in huge enterprises. Thus, it became the direction of development of large modern enterprises for equity arrangements.

People are already aware that many practices in enterprises under ownership of the whole people in China get in the way of improvement of efficiency. Analysis from the equity economics angle shows this is because of the many virtually insurmountable defects in the equity structure and equity arrangements of enterprises under ownership of the whole people that prevent the improvement of efficiency. The basic characteristic of equity rights in enterprises under ownership of the whole people is that the producers, operators, and owners are one and the same. The basic interests of the three are identical. This makes impossible the fashioning of a motivation for and a mechanism whereby owners supervise operators and producers, or operators supervise producers. Inevitably, this leads to a general apathy and "free lunch" in enterprises. In addition, since enterprise assets belong to all the people, there is a tendency for personnel in every enterprise to do all possible to convert enterprise property into personal income. To solve the foregoing problems, all enterprises under the system of ownership by the whole people operate as state-owned enterprises, a certain government department exercising ownership and operating rights on behalf of all the citizens. However, for similar reasons (the representatives of the owners are just salaried government officials having no residual claim), the state has been unable to solve supervision problems and stop apathetic behavior. At the same time, to ensure the rights of owners (the state), it is necessary for this superimposed government administrative organ to control all enterprise matters great and small. This further stifles enterprise "vigor."

Economists have proposed the introduction of the township and town enterprise mechanism as a means of improving the efficiency and vigor of enterprises under ownership of the whole people. Analysis of the equity system of township and town enterprises (not including

rural individually owned and privately owned enterprises) shows that township and town (or village) governments exercise township and town enterprise ownership rights and operating rights. Their ownership basis and their equity arrangements are similar to those for state-owned enterprises. It is only that such enterprises are owned by a small community rather than by the state, and their scale is much, much less than that of large and medium size state-owned enterprises. It is because of this much smaller scale of ownership size of enterprises that township and town enterprises have been able to stave off, to a certain extent, incipient ills similar to those that afflict state-owned enterprises. This is because as a community decisionmaking authority, township and town (or village) governments have goals and take actions that differ greatly from those of the central government, provincial governments, and county governments. The goals of township and town (or village) government in the far-flung rural villages at this specific stage of development when they have yet to shake off poverty are fairly simple. Mostly, they want to develop a community economy, create employment opportunities, and increase residents' income. In addition, the separate systems used in cities and the countryside in China mean that the goals of township and town (or village) governments are not prone to interference from welfare, housing, educational, and personnel promotion problems. Furthermore, because of the relatively small area and the relatively small number of matters over which township and town (or village) government exercise authority, their relations with township and town enterprises are direct and straightforward. Information is transmitted and contacts are conducted quite readily. It is easy to reach a consensus on numerous issues and to make decisions that are consistent with reality. Thus, the small scale of township and town enterprises and the special position of their owners (township and town governments) means that by comparison with state-owned enterprises, township and town enterprises' mechanism for being flexible and meeting market requirements is fairly brittle. When conditions suddenly change, their equity system is bound to come down with the "sickness of the whole people." Practice in township and town enterprise developed areas along the southeast coast testify clearly to this point. Reports about "deterioration of the township and town enterprise mechanism," and that "clay rice bowls" are even harder than "iron rice bowls" constantly appear in the press.

Actually, the reason for the swift development of township and town enterprises during the 1980s lies in its important role in moderating China's distinctive dual economic structure. This was an important link in China's industrialization. Thanks to the specific economic development model and system that China used for 30 years, during the 1970s and early 1980s, the percentage of manufacturing industries in China was much higher than in developing nations as a whole. On the other hand, the enormous size of the agricultural work force, the impossibility of increasing the amount of cultivated land, and the inability of the excess

population to transfer into nonagricultural industries such as existed in cities produced a dual economic structure, the likes of which are a rarity in the world. During the 1980s China's marginal productivity rate began to decline in absolute terms. Between 1978 and 1984, the farmland output rate was 7.0 percent and the labor productivity rate was 5.2 percent. Between 1984 and 1988, the two were 1.5 and 0.1 percent respectively. (Footnote) (Wang Jian [3769 1696] "Reasons for the Shackles on China's Agriculture and Choices for a Future Industrialization Strategy".) During this period, not only was it impossible to create one whit of value from each unit added to the agricultural work force, but rather each additional unit decreased the average earnings of those engaged in agriculture. Under these circumstances, township and town enterprises created an opportunity for the agricultural population to shift into other lines of work without moving elsewhere, and to free themselves from poverty to become wealthy. The original driving force for the development of township and town enterprises was the huge surplus agricultural population, which could produce at an extremely low labor cost. However, during the 1980s, the labor costs of some state-owned enterprises rose sharply. Today, the wages of urban staff members and workers in state-owned enterprises have reached marginal output. The yearning of the peasants to escape from poverty, and extremely low labor costs are the basic reason for the great development of township and town enterprises during the past decade. Once this element disappears, the equity rights structure and the equity arrangements of township and town enterprises are bound to fall into the same predicament as state-owned enterprises. Therefore, attempts to introduce township and town enterprise mechanism methods to change state-owned enterprises is neither necessary nor meaningful.

Yet another and more effective approach for improving the efficiency of state-owned enterprises is to restructure the state-owned enterprise equity structure, using the separation between ownership and operating rights in a modern share corporation system as a model without changing the ownership rights basis of state-owned enterprises—the system of state ownership. This will mean that the state is responsible only for the ownership function. The state will hold ultimate ownership rights (expressed in supervision of the preservation of value and increasing the value of enterprises' assets), while turning over to enterprises juridical person ownership rights (also termed operating rights) including actual ownership rights, disposition rights, and use rights. State-owned enterprises will thus become main market entities responsible for their own operating decisions and for their own profits and losses, and that are also responsible for their own development and placing limits on their behavior. This approach takes account of the failings of equity relationships in existing state-owned enterprises; however, its fatal flaw is that it fails to

analyze completely the relationship between the ownership rights basis and enterprise equity rights. Instead it regards the two as thought they can be arbitrarily tied together. Thus, this approach is a "great innovation" that attempts to create a "modern share corporation system" equity relationship founded entirely on state-ownership.

The equity system arrangements in a share corporation system have the following basic features: (1) The owners are the numerous, widely scattered shareholders, no single shareholder having the strength (the number of shares) to gain enterprise operating rights. Enterprise supervisory authority (operating authority) is thus exercised by a professional, salaried manager. This produces a separation between "ownership rights" and "supervision rights." (2) Through the exchangeability of ownership rights (i.e., residual claim), owners restrain managers and protect their ownership. Although the scattered owners lack the strength to affect the manager's decisions (a so-called weakening of ownership), they have the right to "sack" the manager (selling their shares). This "sacking," which may occur at any time, decisively restrains the manager's conduct. Therefore, the key to smooth operation of the equity system in a share corporation lies in the exchangeability of residual claim, and this is also based on ownership, i.e., decided by the individual owners of assets.

The basis for ownership in state-owned enterprises is ownership by the whole people represented by the state; therefore, residual claim is not transferable or exchangeable under the state-owned system. (Footnote) (The meaning of residual claim not being transferable or exchangeable under the state ownership system is that unless the ownership system is changed, there is no way to transfer state-ownership to a qualitatively identical persona comparable to the state. If the state's ownership rights are sold, then an enterprise is no longer state owned.) The untransferability of residual claim means that it is impossible on the basis of state-ownership to fashion an equity relationship like that in a share corporation in which ownership rights limit operating rights. Since operating rights require limitation and supervision, and since the owner is singular in a state-owned enterprise, unless this owner (the state) personally holds operating rights, what other method is there? Thus, an equity system and equity relationships founded on state-ownership is bound to mean that state collective ownership rights and operating rights reside in a single persona.

Practice with the enterprise equity rights system suggests that among the various equity rights arrangements in various kinds of enterprises that have appeared in the world, the equity rights structure in which "the two rights are separate" has occurred only in the modern share system corporation system, and the highly decentralized ownership rights, i.e., no owner has the power to exercise operating rights, is a prerequisite for founding of a system in which "the two rights are separate." This is to say that if an individual owner holds more ownership

rights shares than another owner, he can demand corresponding authority over the actual operation of assets. Once the number of his ownership rights shares reaches a critical point, ownership rights and operating rights are bound to reside in a single persona. Therefore, since the state is the sole owner of assets in a state-owned system, it cannot separate operating rights from itself! Even by taking a step backward, if the state transfers operating rights, but retains ultimate ownership, inasmuch as residual claim cannot be transferred under the state ownership system, and a mechanism for limiting operators such as exists in a share corporation system cannot be fashioned, there can be only two results: one is to let producers and operators damage the interests of the owner, allowing them to divide up enterprise assets till they are all gone. The other is for the owner (the state) to take back operating authority or to exercise direct control over operators, meaning that the state ownership system is still the traditional state ownership system. (Footnote) (The supposition about state transfer of operation rights while retaining ultimate ownership has a strong "utopian" complexion. Who can make the owner (the state) relinquish operating rights of its own free will? Only the state itself. Since the state can relinquish operating authority, it can likewise take back operating authority at any time. Several decades of changes in the enterprise structure fully attest to this point. In the history of mankind, there is no precedent for truly divesting oneself of authority.)

To summarize the above, ownership based on the matching of equity rights is far from ideal. (Footnote) (See Yu Jianguo [0205 1696 0948]: "Cursory Analysis of the 'Separation of Two Powers' in State-owned Enterprises.") The operating mechanism of a state-owned enterprise is inherent to that particular kind of enterprise; its equity relationship are inseparable from the state ownership form. The two cannot be separated. (Footnote) (See Yu Jianguo: "Cursory Analysis of the 'Separation of Two Powers' in State-owned Enterprises.") One may be able to change the operating mechanism of state-owned enterprises by changing the state ownership system, but one cannot artificially allow the operating rights in a state-owned enterprises to be separated from ownership rights for the sake of changing the enterprise operating mechanism. Therefore, approaches that try to change the operating mechanism of enterprises under ownership of the whole people are also unrealistic.

3. Strategic Ideas About Further Enterprise Reform

If the foregoing analysis is valid, state-owned enterprises will be unable to become fully independent main market entities, and thus it will be difficult to "invigorate" them. However, the traditional economy represented by state-owned enterprises amounts to 63 percent of the economy. Poor efficiency in such a large piece of the economy seriously impairs further development of the national economy. Therefore, the ultimate strategic consideration in future enterprise

reform is to take advancement of economic development as the goal, then set about transforming state-owned enterprises realistically and steadily, and readjusting the percentage of enterprises of all kinds. This is also the crux of founding a socialist market economy system. This is not a refutation of state-owned enterprises. The evolution of the enterprise system shows that state-owned enterprises possess a special and irreplaceable function. That virtually every nation in the world today has a certain percentage of state-owned enterprises attests to this. We proceed from China's realities, and given the character and function of China's state-owned enterprises, use of state-owned enterprises as the socio-economic foundation is not conducive to economic efficiency and economic development.

A strategy for reform of state-owned enterprises, and for readjusting the percentage of enterprises requires, first of all, a division of labor based on the equity relationship of different kinds of enterprises, and their equity structure, so that they can make the most of strengths and play down weaknesses in economic development, perform different tasks, and play their own role to the full.

1. In terms of enterprise character and function. The equity structure of state-owned enterprises inevitably leads to their direct operation by the state. Since state-owned enterprises have state attributes, they are mostly regulated by state plan rather than the market. Enterprise goals are subordinate to the overall and diverse goals of the state. Their profit goals take second place. Therefore, state-owned enterprises are the main bearers of social stability and social service functions. By contrast, nonstate-owned enterprises are completely independent market entities whose actions are largely market regulated. Making a profit is their main goal. They bear responsibility for economic vigor and economic growth.

2. In terms of making or not making a profit, state-owned enterprise are generally not suited to dealing "exclusively" in ordinary sorts of profitable commodities. However, they deal, in fact, in some widely used goods that are needed, that are a part of daily life, and that play an important role in maintaining social stability. Because of the "nonexclusiveness" of goods that are widely used, "free lunch" problems may readily occur in their use. Therefore, nonstate-owned profit-making enterprises shy away from them, but the nature of state-owned enterprises suits them to the task of dealing in widely used goods. Therefore, public utilities such as electric power, coal gas, natural gas, water supply, public transportation, aviation, railroads, highways, water conservancy, telephone and telecommunications, and basic raw and processed materials are the province of state-owned enterprises. In China, these sectors lag behind the times. They are in urgent need of vigorous development. Therefore, for some time to come, state-owned enterprises will shoulder heavy responsibilities. Nongovernment owned enterprises, by contrast, should play the main role in the profit-making field.

3. State-owned enterprises can also enter the profit-making realm. Experience shows a substantial ratio of state-owned enterprises in the profit-making field in every country, and every country regulates this ratio within certain limits on the basis of specific goals. However, the sectors in the profit-making realm that state-owned enterprises enter should be carefully chosen. The equity structure of state-owned enterprises suits them for entry into the following sectors: (Footnote) (See State Statistical Bureau, Economic Research Institute Ownership System Task Force: "Changes in China's Ownership Structure and National Economic Control".)

(1) Production sectors in which market demand is steady and few changes occur.

(2) Sectors in which the transparency of the production process is high, and in which the state can readily inspect all goods consumption norms, and can readily supervise, handling of distribution relationships between the state and enterprises thus being fairly easy.

(3) Monopoly sectors, including monopolies resulting from natural conditions such as the availability of mineral resources, and monopoly sectors resulting from consumer inability to differentiate, supervise, or replace such as hospitals. State-owned enterprises should not deal in products that vary in size, color style, etc., and those for which market demand changes; products whose production lacks transparency, for which prices change frequently, and for which the state cannot readily keep abreast of enterprise production information; individual consumer goods that are extremely competitive, and that are better suited to nonstate-owned enterprises.

4. In terms of enterprise organizational structure, both domestic and foreign experience and development trends show that the founding and development of industries in which large enterprises form the backbone, including research and development centers, information systems, commodity circulation networks, ordinary domestic enterprises, and even including financial institutions, and large, exceptionally large entrepreneurial blocs and trans-national corporations that are diversified into many areas is the orientation for readjustment of China's enterprise organization. The equity structure of state-owned enterprises determines whether they are equal to the task of managing and administering such large and exceptionally large enterprises that are enormous in size, whose production and operating processes are complex, and in which the division of labor and coordination is high. Current experience and logic show that the share corporation system is suited to the equity arrangements of large and exceptionally large enterprises, while small enterprises are better suited to state-ownership and similar equity arrangements. This was explained above in the analysis of the equity relationships of township and town enterprises. However, this orientation contrasts greatly with actual circumstances in China today. This poses a daunting challenge in the future transformation of state-owned enterprises.

5. In view of the actual situation in China, it is difficult for other than state-owned enterprises to carve out a niche in capital and technology intensive high grade, precision, and advanced fields such as aviation, space flight, nuclear industries, precision machine tools, and heavy equipment because of their lack of strength. Consequently, these are fields suited to state-owned enterprises, but the state-owned enterprises in these fields also have to become transformed gradually.

Since China's state-owned enterprises still dominate, and are in virtually every field of the national economy, and since China has yet to found modern share system enterprises in the real sense of the term, no enterprise system has yet appeared that is able to take the place of state-owned enterprises (particularly large and medium size enterprises). If we rely on the natural growth and development of share system corporate enterprises (and it took nearly 100 years for this system to mature and be perfected in developed nations) to regulate the ratio of various kinds of enterprises, this will delay development of the economy. Therefore, we must take positive actions and steadfastly transform state-owned enterprises to realize the enterprise reform strategy of readjusting the ratio of all kinds of enterprises. This strategy specifically includes terms in the following several regards:

1. The state is to gradually take the initiative in withdrawing from sectors not suited to operation by state-owned enterprises. It may withdraw in many different ways:

(1) through policies that continue to guide and encourage the development of various kinds of nonstate-owned enterprises, helping them to overcome difficulties in order to grow stronger;

(2) by increasing assets, the state taking the initiative in giving more elbow room to nonstate-owned enterprises by reducing or even halting investment in certain fields, and putting assets into sectors in which the need for social and economic development is urgent and that are suitable for state-owned enterprises; and

(3) by leasing assets to small enterprises to transform their equity structure within a certain period of time. Alternatively, completely nonstate means such as auctions may be used to change the ownership basis of small enterprises for a restructuring of the make-up of enterprises' equity. This will enable small enterprises to improve their efficiency and increase their vitality to become real major market entities. The share corporation system should be the goal in the transformation of large and medium size enterprises, step by step measures taken to attain this goal. The first step should be to issue shares for all enterprise. Assets as the share system requires, all entities holding shares, the state holding the largest number, of course, so that the state's shares hold a controlling position. During this period, the enterprises would still be a state-owned enterprises whose economic actions are still controlled by the state. In the second step, the state would gradually sell its shares, the number

of shares held by the state ultimately becoming the same as those held by the rank and file of shareholders, and the status of the state in the enterprises being the same as that of rank and file shareholders. With this, the enterprise's equity rights bases and equity structure would evolve to become a true share corporation system.

The aforesaid state withdrawal should be gradual and moderate. In the case of large and medium size enterprises, the state can both sell off state-owned shares and withdraw from enterprise operation in a conversion to a share corporation system enterprise, and it can also buy enterprise shares as necessary and take part in enterprise operation to bring enterprises under state ownership. The state may also retain a certain percentage of enterprise ownership (a percentage markedly higher than the percentage held by the rank and file of shareholders yet not a fully controlling number of shares), and take part in enterprise operation to a certain extent, the enterprises having a mixed form of ownership.

2. Retained state-owned enterprises should be directly operated and controlled by the state, but with improved methods. Such enterprises should be converted to the share system, the state holding 100 percent of the shares. Alternatively, the state might hold shares jointly with other government institutions or individuals, but the state-retained shares must be sufficient for the state to control the enterprises. The board of directors-manager system should also be used for administration and management, the board of directors being made up of state representatives on the basis of the percent of shares that the state holds so as to ensure the state's right to lead the enterprises. The manager should be selected or appointed by the board of directors, and be responsible to the board of directors. In addition, necessary auditing and examination organs must be set up to inspect and supervise state-owned enterprises.

3. Not only do township and town enterprises account for a substantial percentage of the economy, but they are also one of the main forces driving the country's industrialization. However, the ownership basis and equity arrangements of township and town enterprises do not permit their further development and growth. Transformation of township and town enterprises should not be done with "arbitrary uniformity." Different means should be employed:

(1) Institution of equity arrangements similar to those of state-owned enterprises. The assets of these enterprises should be owned by the residents of the whole community, township and town (or village) governments directly operating the enterprises as representatives of the owners. The "south Jiangsu model" is of this kind.

(2) Institution of a partnership system made up of several partners, the owners and the operators being one and the same, thereby solving the internal supervision problem in small enterprises. However, combining assets in a partnership is not easily accomplished. "Splitting" of assets is likely. This is detrimental to enterprise

growth. Enterprises having no government funding may adopt this method during the initial state. This is the "Wenzhou model."

(3) Collective cooperation system. In this system, enterprise assets belong to all members of the enterprises, and owners and operators are one and the same people. This very greatly stimulates work performance. It produces a satisfying "contractual atmosphere." The fatal flaw in the cooperative system enterprise is that as the enterprise grows larger. There is no way to solve the supervision problem among owners (who are identical with the operators), i.e., a "free lunch" problem exists among members of the enterprises that obstructs expansion of the enterprise. This is similar in some ways to the current "Zhoucun model."

(4) The share corporation system. The share corporation system is the one that township and town enterprises use to develop into large enterprises. The method use to create a share corporation system is similar to the method used for the transformation of the state-owned system except that it may be somewhat faster. Enterprise assets are inventories, shares representing the assets issued directly to society at large, township and town (or village) government assets being converted to ownership by all shareholders for the establishment of an ownership basis in which a large number of scattered shareholders own the enterprise. Township and town government may use the funds recovered from the transfer of shares for use in other areas within the community that are in urgent need of construction.

4. In view of the changes in the ratio of the various kinds of enterprises, changing current state public finance depends mostly on state-owned enterprises. It requires drawing up uniform, standardized industrial and commercial, taxation, public finance, and banking systems to enhance the building of these sectors, and using them to institute supervision and control of enterprises of all kinds without distinction. It means allowing profitable enterprises to construct the socio-economic foundation that bears the task of creating and accumulating wealth, forming a new pattern of economic development in which numerous enterprises are infused with vigor and vitality.

Reform of Macroeconomic Regulation To Accelerate

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[Article by Lou Jiwei (2869 4949 0251): "Urgently Needed: Accelerated Reform of the System of Macroeconomic Regulations"]

[Text] For 14 years, China has pursued market reform and has made significant advances in the nonstate-owned economic sectors and in the microeconomic area. Although serious probing efforts were made, progress was rather slow in reforming the economic management

system by government and in changing the operating system of state-owned enterprises.

If the earlier stage of reform can broadly be characterized as "opening up" to a new system, then the focus of reform from this point on is on "changing," i.e. fundamentally changing the basic nature of public ownership of property, the operating system of state-owned enterprises and the economic management system by government. Comparing the two stages, the degree of difficulties involved in "changing" is much greater. The fact that macroeconomic management reform is stagnant and becoming a "bottleneck" in the reform framework should be taken seriously, and greater effort should therefore be made to accelerate reform.

Since 1979, China's economy has undergone 14 years of reform. From an overall standpoint, changes in the system have been market-oriented and the results achieved notable. Most commodity prices have been freed, and the market mechanism has begun to exercise its adjustment functions in the areas of production and circulation of commodities. At present, both development and reform have entered a highly inflated new stage, and the difficulties of reform have become magnified. This is because in the past reform was rather quickly implemented in the nonstate-owned economic sectors and at the microeconomic level. In those areas, with reform based on decentralized decision-making and sectoral experimentation, chances of success were greater. The task of reform at the current new stage, however, is chiefly concentrated in the state-owned economic sectors and the system of economic management by government. If the earlier stage of reform can conceptually be defined as "opening up" to a new system, the reform yet to come must focus on "changing," that is fundamentally changing the operating system of state-owned enterprises, the basic nature of public ownership of property, and the system of economic management by government. Comparing the two stages, "changing" or "changing course" is much more difficult, and its progress will be slow. Viewed from the standpoint of a system of macroeconomic management, the sluggish pace of this phase of reform is very obvious.

The "boom and bust" cycle in national economic development can lead to serious disruption and waste in resource disposition, cause great harm to the newly developed market mechanism and result in putting the reform process in a stagnating pattern. These conclusions are not inferred from any theory, but are based on reality we ourselves have experienced. The problem lies in the fact that when reform of the system of macroeconomic regulations is stagnant, these regulations are not applicable to the economic operating system of a partially transformed market economy.

The stagnant condition of reform is seen in the government's lacking sufficient power to coordinate the overall national economy that results in a recurring "boom and bust" cycle in the national economic development. This type of economic cycle is very harmful to effective

disposition of resources. During the "boom" phase, demands are building up, and investors act in anticipation of demands which often out to grossly exceed the consumers' real ability to purchase, and the result is over-investment which creates even greater production capability. But before this production capacity can be developed, inflation kicks in, and the government cannot help but adopt measures to control investment which forces the economy into the "bust" stage in which many half-completed construction projects have to be abandoned and widespread waste results.

A sharper manifestation of stagnating reform can be seen in the fact that the existing macroeconomic regulatory system is basically incompatible with the economic operating system of a partially transformed market economy. During the "boom" phase, traditional control measures such as issuing orders and directives have proved to be ineffective, and the resulting situation may be described as "out of control." In the "bust" phase, traditional control measures are often emphasized such as closing down enterprises, controlling commodity prices, limiting operational parameters of enterprises, and even ordering work stoppage in construction projects. Although the "overheated" economy is thus brought under control, and the inflation rate brought down, the newly developed market mechanism however has also sustained considerable damage which causes the reform process to be halted or stagnate at midpoint.

The above-described economic "boom and bust" cycle and the reform process that is "limping along" are not inferred from any theoretical construct, they were the reality we ourselves have already experienced. What the experience has impressed on people is the harmful notion that macroeconomic regulations are somehow incompatible with reform and that by disregarding the former more benefits would follow. It is not our intent to blame people holding this concept or notion, but concept does reflect reality and the reality is basically as described above. This nevertheless makes it clear that if we do not accelerate macroeconomic regulations system reform, macroeconomic regulations will continue to play a "role" which is opposite to reform, and the regulatory power of the system will gradually become weaker. A "boom and bust" cycle followed by "reform limping along" will again be repeated, only in shorter intervals.

On closer examination, the problem is that reform of the system of macroeconomic regulations is stagnant, and that even changing the ways of the traditional planned economy is too slow. To examine this problem in depth, we should analyze how the planned economy operates. In the planned economy, government departments make the basic decisions regarding disposition of resources. This system put the enterprise and individual in government administrative layers, with decisions made at one level passed successively down the line to the production, purchase and sales of each specific commodity or service, with manpower, capital and material organized on the principle of comprehensive equilibrium to accomplish the disposition of resources (i.e. of manpower,

capital and material etc.). Thus, with the national economy managed under the traditional system, the following special characteristics can be noted:

First, there were no obvious micro- and macroeconomic differences. Concretely speaking, there was no division of labor between market decision-making by enterprises and individuals and decision-making by government in managing the society. In fact, macroeconomic management did not exist in the traditional system. For the macroeconomic management concept only came into being seven or eight years ago after market reform had reached a certain stage of development.

Second, there was no concept of microeconomic decision-making by individuals and enterprises based on market equilibrium; there was only a concept of overall equilibrium as practised by administrative departments of government at various levels. Overall equilibrium was divided into categories: equilibrium of aggregate goals such as total output value, investment, consumption, equilibrium of component goals such as output value of trades, production and expenditure of materials for trades, and equilibrium of individual goals such as production and use of each specific commodity or service.

Third, there was no essential difference in the parameters of decisionmaking by enterprises and individuals and by government departments; it was only through decisions made at different administrative levels that different numerical quantities were assigned to production, purchase and sales, and the differences reflected the administrative authority [of each level] to deploy manpower, capital and material.

After 14 years of reform, China's economic operating system has undergone historic changes: a new pricing system has basically been set up, and the ability of government to intervene directly in microeconomic activities and in disposition of finances and capital has been greatly diminished. The overall direction of reform is a correct one. But stagnating reform of the macroeconomic regulatory system has led to the current problems of the economy overheating in certain respects and the increasing inflationary pressure as a result, problems which deserve a high degree of attention.

A little analysis will show that the traditional planned economic system and the market economy are incompatible. The traditional system has many fundamental weaknesses such as low productivity, inadequate and irrational disposition of resources and so on, but that system was however able to exercise forceful control over the national economy, even though this control often was accompanied by great waste. After 14 years of reform, China's economy has left the traditional planned economic framework behind, and the pace of change has been quite rapid particularly in latter half of 1991. Most prices have been freed, and operational parameters of enterprises rapidly enlarged. What to produce, to sell or

they are now decided mostly by enterprises and individuals themselves. The enterprises' decision-making authority over "manpower, capital and material" is also gradually widening. In making microeconomic decisions, enterprises and individuals mainly rely on trends and changes in market prices and on the estimated benefits relative to costs. The market brings together the supply and demand relationships of the various commodities and services and seeks to realize a supply-demand equilibrium. This aspect of market reform will continue to go forward because even individual, even enterprise and even the entire country will gain great benefits from this process of reform.

Viewed from another angle, in terms of the methods used in the traditional system, the foundation of government administrative departments in controlling the national economy has become weaker and weaker, in dealing with production, purchase and sales and in coordinating operations involving manpower, capital and material, only the "capital" category is subject to direct management by government departments, and the amount of "capital" involved is around one-third of China's total capital assets. The amount of capital which government departments can use in direct investment is less than one-third of China's investment capital and government revenues constitute less than 20 percent of China's GDP, and even foreign exchanges are not more than one-third of GDP. But if these data were compared with similar ones before reform, one may still not be able to see the extent to which the government's ability to directly manipulate capital has declined. For example, revenues in 1978 accounted for about 37 percent of the gross domestic product; on this basis, the government's ability today to directly manipulate capital has declined by 50 percent. Yet today, the difference in reality is much greater than shown in this example. Because in the earlier days, production, purchase and sale involving manpower, capital and material resources were mostly controlled by government departments, their prices were basically fixed, and government could mobilize most of the country's capital by using its comprehensive coordinating authority. Some of the comrades in the planning department today complain that it is increasingly difficult for them to use the money they have at their disposal. Aside from the reasons of price rises and declining value of money, the most important reason was the inapplicability of the traditional comprehensive measures, for the function of "money per se" is diminished in importance.

Some comrades have pointed out that this type of change should be considered a good thing. The fact that the ability of government departments to directly control the economy has declined, and reducing government interference in economic activities is precisely the goal sought by reform. But this is only saying more than one-half the story. There is a lesser half—a not insignificant lesser half—that cannot be overlooked. Of course, regulations

methods of a planned economy, which do not differentiate government from enterprise or macro from microeconomics should be abolished, but a system of macroeconomic regulations appropriate to the market economy must also quickly be set up. At present, the economic overheating and increasing inflationary pressure reflect the inability of the traditional system to change and adapt but still existing its influences when the establishment of a new system of macroeconomic regulations is running into stagnation.

Macroeconomic coordination in a market economy is coordination of aggregates, and is the same as the government regulating the society's aggregate purchasing power to ensure there will not be excessive purchasing power chasing an inadequate supply of goods and causing inflation. Conversely, if the society lacks adequate purchasing power, vast quantities of goods will remain unsold. Macroeconomic regulations are based on fiscal and monetary policies to regulate the economy. Monetary policy is the most important macroeconomic regulatory policy; it is the "main gate" which controls the society's monetary purchasing power, and is based on the total cash circulating in the economy including all deposits, credits and reserves of all banks. The regulatory functions exercised by monetary policy are carried out mainly through adjusting the interest rates, the reserves required of all banks by the central bank, and the amounts the banks are permitted to lend. Fiscal policy is also an important macroeconomic regulatory policy. It determines the amount of revenues to be collected, the amount of expenditures authorized, and whether revenues and expenditures are in balance. If imbalance exists, borrowing from the society will be made. If debts become excessive, and monetary purchasing power of enterprises and individuals is not reduced, then the society's overall purchasing power will be increased, resulting again in inflation. The present situation in China is that the central bank has not established the necessary flexibility to adjust interest rates, on a system for regulating lendings to banks, the government has not set up an effective revenue collection system, a rational system for controlling expenditures, but in the operation of the economy, however, decisions made by basic-level units have to a large extent already conformed to the market mechanism. At this juncture when the old economic system is being replaced by the new, it is easy for inflation to occur.

A macroeconomic regulatory system functioning in a market economy must be based on the recognition that benefits are pluralistic. To establish a new macroeconomic regulatory system that functions effectively in a market economy, it is important to establish agreement on the basic concept of such a system.

To establish a new macroeconomic regulatory system that functions effectively in a market economy, a lot of work remains to be done with respect to reform. The primary importance is to establish agreement on the fundamental concept of such a system. It is necessary to recognize that the benefits of the system are pluralistic.

The main components that receive benefits do not necessarily carry the same economic responsibilities; it follows therefore that one should not expect or demand that benefits or responsibilities should be equal for all. Macroeconomic regulations are applied by adjusting the rates of interests and taxes, and by administering forcefully the laws and regulations such as on contract, accounting and taxes; by ensuring that all parties that benefit pay the same interest and tax rates, the parties involved, when seeking their individual benefits on that basis, will be able maximize their benefits under conditions of overall equilibrium in our national economy. Today, China's economic system is a transitional system; it is not the traditional system of a planned economy, which does not recognize the individual benefits and individual responsibilities of basic-level units; at present, this system has yet to recognize that benefits must be pluralistic and responsibilities diversified. Yet, once a macroeconomic crisis occurs, it becomes necessary for the central government to intervene directly in microeconomic management, to emphasize that benefits of one part must be made to serve the whole, and to demand that basic-level units (including local governments) also shoulder macroeconomic regulatory responsibilities. Therefore, some comrades have said that so long as it is possible to enforce [the notions] "that top to bottom unity must be recognized, that separate parts must serve the whole, and that the whole country plays the same game of chess," fundamentally speaking, a new system cannot be established under these circumstances. This line of reasoning, though rather pointedly stated, is not entirely unreasonable and does contain some grains of truth.

Three conclusions:

A macroeconomic regulatory system appropriate for a market economy is basically not yet fully developed; although the traditional system of controlling the economy has been dismantled, it still uses limited "financial" power to manage some production, purchase and sales functions, albeit within rather circumscribed parameters (defined mainly by the state-owned economic organizations). Regulations of a planned economy have very little influence on the vast majority of economic activities in the society. As a market economy-oriented macroeconomic regulatory system is not yet functioning, the situation is seen to be "out of control."

Under such circumstances, loss of control in the economy and the danger of inflation can easily occur. When the economy faces a crisis, the traditional approach of a planned economy is to enlarge the scope and directly regulate sources of capital and manage a host of economic activities such as managing prices, controlling credit, forcefully stopping construction projects, etc., and the result inevitably will damage the market mechanism and waste resources.

We must accelerate reform of the macroeconomic regulatory system, so that both reform and economic development may develop in a healthy manner. A prior

condition is to break down the ideological approach of the traditional planned economic system, and establish the new concept of market economy.

PROVINCIAL

Guangdong Official on Establishing New Market Economy

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[Article by Li Guikang (7812 2710 1660), deputy secretary, Dongguan City CPC Committee, Guangdong Province: "Speed Up Establishment of New Socialist Market Economy"]

[Text] The 14th CPC National Congress called for the establishment of a socialist market economy. Creating such a system has enormous practical importance as well as profound historical implications for building socialism with Chinese characteristics and accelerating modernization.

Since reform and opening up, we have liberated our thinking by seeking truth from facts, instead of following books or orders from above slavishly. We have earnestly tried to grasp the spirit of instructions from the center, implemented central policies fully and imaginatively, oriented ourselves to the market, introduced a string of effective policies, and courageously carried out the socialist market economy.

To re-energize the microeconomic base of the market economy, namely the enterprise, and turn it into an independent commodity producer, we have taken a series of steps:

Created the basics of a government-enterprise relationship that will help enterprises obtain decision-making authority in their operations. During the early days of reform and opening up, we streamlined the administrative structure and delegated power, simplified the procedures, and made our work more open and efficient. The result is an economic management system that helps enterprises operate autonomously. Back in 1978, we set up an export processing and assembly office to keep up with the development of an export-oriented economy. We insisted that there be one-stop shopping as far as foreign economic relations are concerned, a single office which handles everything, from negotiations and the management of industry and commerce to applying to customs, processing import-export permits, and handling the formalities involved in doing business directly with Hong Kong. A few years ago we had a problem with growing red-tape after the city was upgraded. With that problem specifically in mind, the city CPC committee and government rewrote many regulations to simplify formalities and make our work more effective. When it comes to the overhaul of government functions, we proposed the following: give enterprises a free hand in doing what the government does not do very well, the

government not intervene in enterprises' business activities, and enterprises be allowed to decide their production and operational activities on their own based on market supply-demand information. The enterprise has the power to choose which projects to invest in and raise internal funds through short-term borrowing. Enterprise management by the government is primarily effected through policy-making, legislation, taxation, and other economic tools. Government should concentrate its energies on undertakings currently beyond the capability of enterprises, such as infrastructural facilities in transportation, energy, as well as urban planning to create a favorable climate for social economic development.

Created the rudiments of a diversified ownership structure. With the introduction of the competitive mechanism of the market, an ownership structure that used to be the exclusive domain of state ownership now features a variety of ownership systems—state ownership, collective ownership, private ownership, and individual ownership—and the coexistence between Chinese capital and foreign capital. Some collective enterprises are the subsidiaries of state enterprises while private individuals can buy into both state and collective enterprises through stock ownership. No matter who the controlling shareholder of an enterprise is, it must operate on the market in accordance with the principle of value. The diversified ownership system, while still in its embryo, has laid the groundwork for the effort to turn the enterprise into an independent commodity producer and operator on the market. Most enterprises feature a board of directors, with a manager subordinate to it, operate in accordance with the shareholding economy, and follow a manager responsibility system. Some enterprises have met the preliminary conditions for issuing shares on the market; citywide 300 million yuan worth of internal shares have been issued.

Tentatively reformed the hiring and distribution systems. Enterprises have abolished their traditional personnel and recruitment systems, giving a boost to the maturation of the labor market in the process. Enterprises in Dongguan have absorbed over 20,000 technical and managerial personnel from the rest of China and another 40,000 from the rest of the world. Furthermore, they have provided jobs for almost 1 million Chinese workers. In foreign-funded enterprises, city-run collective enterprises and some state enterprises, a new labor-management relationship has emerged in which there is dual choice, by workers as well as by the enterprise, where a person's income is linked to his performance and the achievements of his labor, and where science and technology are taken seriously and have a relatively high rate of return.

Zero in on price reform as the point of penetration and combine adjustment with decontrol, with emphasis on the latter. Today planned prices have largely been abolished throughout the city. For the vast majority of commodities, prices are formed by the supply-demand situation on the market. All enterprises, including state enterprises, decide how much to produce and where to

invest based on the market supply-demand situation and market prices. Besides revitalizing the commodity market by decontrolling prices, the city has also developed markets for other capital goods, such as funds, labor, real estate, technology, information, stocks and bonds. Prices have become the principal means of resource distribution on capital goods markets. Furthermore, by pushing for the commercialization of capital construction involving energy and transportation guided by the law of value, the city has successfully made electricity generation and the construction of roads and bridges self-financing, thus easing the burden on the government coffers and making those projects self-supporting. As a result, capital construction which used to present the most difficulties is now a leading sector of the economy.

Enter the international economic orbit gradually. Dongguan has become part of the global market. Of the 10,000 strong industrial enterprises in the city, 700 are foreign-funded. Each year the city procures more than 3 billion yuan in raw materials on the international market and most of the output of the 7,000 foreign-funded enterprises is destined for the overseas market. There are now unbreakable ties among enterprises and between enterprises, on the one hand, and the domestic and international markets, on the other. What has come into existence is an industrial chain. While a large quantity of Dongguan's output is directly sold overseas, a substantial portion finds its way back into the domestic market via the international market. The financial market and stock market too are becoming progressively international as many enterprises raise short-term loans on the international financial market. The stock of some foreign-funded enterprises is traded on the Hong Kong and foreign stock markets.

Since reform and opening up, the city has been following a socialist market economy. However, circumscribed by both objective and subjective factors, we are still at the threshold of such an economy. Measured against a coherent market economy, the city's economy still has many problems.

The crux of the problem is that we have not created a focal point for commodity circulation and exchange. Dongguan turns out a full range of products in great quantity, including some brand-name products with a national and international reputation. Judging by customs statistics on imports and exports, Dongguan ranks among those cities in the province and even the nation handling the largest volume of exports and imports. In the case of many products, Dongguan has acquired a capacity for scale production, including some which are top-notch in the province, nation, and even the world. Dongguan, it may be said, is one of the world's commodity production centers. In contrast to its standing as a production center, however, Dongguan has yet to establish itself as a global commodity circulation and exchange center, this despite the endless variety of shops and a flourishing commercial sector in the city. A significant portion of Dongguan's output must go through

Hong Kong to realize its commodity value. There is a shortage of large-scale commodity exchanges in the city and methods of exchange are also fairly backward and lack variety. The exchange of a substantial share of capital goods and products is unorganized. The futures market has yet to take shape. In the case of some products, the capacity for scale production has not been accompanied by a specialized market. This is a major constraint on the development of the city's market economy into a more sophisticated economy.

There are other problems besides the ones mentioned above:

First, the maturation of the markets for capital goods is still lagging. The property rights market is still immature. There are gridlocks in circulation channels on the financial market. The labor market, still in its infancy, is not sophisticated enough. The technology and information markets are still in their rudimentary stages. The real estate market has yet to be regularized.

Second, the economic managerial function of the government and the methods by which it manages the economy have not been overhauled. Economic management agencies are still set up in a way to accommodate the planned economy and agricultural economy. The administrative setup is still that of a planned economy. In terms of functions, it has yet to complete the transition from direct management to indirect management. Macro social and economic regulation and control is not effective enough. The ownership of state and collective enterprises has not yet been separated from their management. As a result, these enterprises remain dependent to a certain extent while government remains saddled with the economic burden.

Third, market rules have not been standardized. On the whole, the Dongguan economy is still operating in a less than orderly manner. Fair competition has not come about. Often power intrudes on the market and a person's word replaces the law.

From the dialectical materialistic and historical materialistic viewpoints, this state of affairs is an inevitable product of the way things develop. It is caused by the following factors. One, the construction of our socialist market economy rests on a fairly weak foundation. In the pre-reform and pre-open policy era, ours was predominantly an agricultural economy. The economic management system was in the mode of a planned economy. Educational standards were by and large quite low. To establish a modern market economy on such a fragile foundation presents enormous difficulties. Second, the development of a market economy is highly susceptible to the impact of external factors, especially the influence of the Hong Kong economy. Thus the development of a market economy in Dongguan is driven not so much by reform, where we can exercise some initiative, as by the external market. Third, it is hemmed in by the law of development of the market economy itself. There are three development stages the commodity economy must

go through—small commodity economy, primitive free economy, and modern market economy. Since the market economy is a higher and more developed form of the commodity economy, its creation and development requires a historical process and is not something that can be achieved overnight.

Continuing reform and opening up, the establishment of the status of the socialist market economy, the accession of China to the GATT, the return of Hong Kong in 1997, the growing regionalization in the world economy, and the imminent emergence of the "Asian Pacific economic sphere"...all this will create for Dongguan a domestic macroeconomic climate and international economic climate that has never existed before, an epoch-making opportunity. If we work hard, Dongguan will certainly become a modern city that operates in accordance with international practices, a production and circulation center for international industrial products, a transportation hub and a focal point for the cluster of cities in the Zhujiang Delta. Thus we must accelerate the creation of a socialist market economy in Dongguan in accordance with the requirements of a modern city that can serve as both a regional and an international urban center.

1. Go all out to build a variety of markets to turn Dongguan into a commodity circulation and exchange center. Build Dongguan up as an international circulation and exchange center as well as an industrial goods production center for the world by creating a host of large-scale specialized exchanges, establish a number of commercial houses, companies, brokerages, and other intermediate organizations for commodity exchange.

Accelerate the maturation of five markets. First, establish a large number of retail and wholesale shopping centers to inject life into commodity circulation. Second, develop a number of specialized markets for such industrial products as textile apparel, electronics, watches and clocks, food, toys, and shoes. Third, develop an import-substituting raw materials market. Fourth, develop a wholesale market featuring primarily good-quality fruit to spearhead the development of a modern agriculture in Dongguan. Fifth, establish a futures market.

Establish many large-scale commercial houses and companies. If the products of the enterprises in Dongguan are to capture a larger slice of the domestic and international markets, we must put an end to the present situation with its fragmentation and total reliance on foreign firms. Set up some large-scale commercial houses and companies, put together an ocean-going fleet, and establish an extensive sales network at home and overseas to be responsible for marketing and selling the output of the city's enterprises. By centralizing publicity and creating uniform trademarks, we can create a favorable image, broaden our influence, and expand the market share of Dongguan products, both at home and abroad. At the same time, we must go all out to train qualified personnel, particularly people who are both proficient in foreign languages and have expertise in commerce and trade, and recruit a number of returned

students. Reform the entry-departure application process within the limits allowed by law. Make an effort to liberalize the departure restrictions and simplify the application process and visa formalities to let more personnel go overseas to do business.

Work hard to develop the brokerage profession. Brokers and brokerage firms are irreplaceable as a facilitator of circulation and a stimulant of the economy and production. As the stock market and futures market develop, in particular, brokers will become indispensable. Brokers made their first appearance in Dongguan a few years back, but the profession is in an unorganized, sporadic state, not yet an industry. Brokerage firms are few and far between, operating on a small scale within a strictly limited area. To better facilitate commodity circulation, we must develop the brokerage business vigorously so that it can play a wider role in the market economy.

2. Hasten the maturation of the capital goods market and work hard to bring about the optimal allocation of resources. The formation and development of the property rights market and financial market will spur the maturation and development of other markets, which in turn, will promote the development of a market economy in the city even more effectively. Go all out to develop a property rights exchange market to put an end to what characterizes the city's property rights market at present: its crudity, its sporadic and spontaneous nature, and its high exchange costs. By establishing centers for property rights exchange, including auction houses and property rights exchanges, we can broaden the role of the market in property rights exchange, turn property rights into securities, socialize such exchange, widen its scope, and lower its costs. Accelerate the maturation of the financial market. Dongguan has few financial institutions, the industry is not competitive enough, there are only limited channels for raising short-term loans, and means of account settlement are backward...all this has constrained economic development in Dongguan up to a point. To better foster economic development, we must nurture and develop the financial market in the city in accordance with well-established laws on the international financial market as well as its requirements: internationalize operations on the financial market, diversify the channels of fund-raising, modernize the methods of account settlement, and make the market run more efficiently.

Speed up the maturation of such capital goods markets as those for technology, information, labor, and real estate. Set up a technical market to realize the value of technology, promote technical development, and expedite technical progress. Continue the system of making land use rights transferable in return for payment and invigorate the real estate market. Allow the free movement of labor. Make people pay for the use of information and promote the formation of an information market.

3. Double the effort to formulate laws and regulations for the market and regularize economic behavior. The

market economy is an economy based on the market and regulated by law. The standardization of market laws and regulations is a basic requirement of the operation and development of the market economy. The market orientation of enterprises requires corresponding economic institutions, laws and regulations to set limits and regularize them. Government conduct too must comply with the objective principles of the market economy and be regularized and restrained by laws and regulations. Fair and appropriate local laws and regulations must be drawn up in light of local conditions. Reform measures that have proven to be effective and mature after years of practice should be written into law promptly. With such phenomena as administrative power intruding upon the market and supplanting the law with a person's word, we must hand over to law offices, accounting offices, and auditing offices a substantial number of what used to be government functions, gradually turning these bodies into the intermediate organizations that link together enterprises and regularize enterprise behavior. Revolving around the needs of establishing a new market economy, crack down on economic crimes unwaveringly, particularly corruption and bribery cases. Step up the investigation and processing of crimes that disrupt order on the financial, commercial and trade, and real estate markets.

4. Create a government operating mechanism suited to the market economy. Overhaul government functions and intensify macroeconomic management. In a market economy, the principal government functions are to make comprehensive planning, develop policies, guide information, organize, provide services, inspect, and supervise. To change government functions, our first order of business is to separate the social management functions of government from its property rights management functions so that government administration is totally severed from enterprise management, and straighten out their relations. Identify all the ownership functions now scattered among various government agencies and turn them over to bodies that manage state or collective properties so that such properties would be more effectively managed. Make better use of state and collective properties in influencing, regulating, and controlling the market in accordance with the requirements of social economic development. Government's principal responsibility is to discharge its social management functions, focusing on the strengthening of macro social management. Macroeconomic management should mainly take the form of indirect regulation and control. By formulating a national economic development strategy and industrial policy, the comprehensive government departments in charge of macroeconomic management should do a good job in comprehensive balance and economic forecasting, guide the rational distribution of productive forces, optimize the economy and the industrial structure, and ensure sustained and steady economic growth. In addition, using market information, they should amend the existing objectives of national economic development in the light of information from the market. The government should use a mix

of economic, legal, and administrative tools to regulate and control the macroeconomy, with emphasis on economic levers. It should also seek to influence and guide enterprises, regularize enterprise behavior, and through the market, achieve its macroeconomic regulatory and control objectives.

Reform the government machinery based on the requirements of the market economy. We must increase and strengthen organs that carry out indirect macroeconomic regulation and control while abolishing and weakening those organs which are involved in direct management or are operating the enterprises, depending on the requirements of the market economy. We must set up a government management system featuring a streamlined administrative structure but capable of regulating the market effectively and operating effectively. Agencies not suited to the development of a market economy should be streamlined out of existence. Offices that duplicate one another's functions or have very similar duties should be merged. Corporations and bureaus which are semi-administration and semi-enterprise but which should become administrative and managerial organs must be given administrative and managerial responsibilities and cease to operate as enterprises. Other corporations and bureaus must not be given administrative responsibilities but must be turned into enterprises. On the other hand, there is a need to create new central agencies to carry out indirect macroeconomic regulation and control to keep up with the needs of a market economy. Macroeconomic regulation and control departments such as the tax and finance departments as well as other economic supervision, information, and comprehensive management agencies, like auditing, industry and commerce administration, land, planning, and environmental protection, should be strengthened.

Work hard to enhance the ability of leading cadres to steer the market economy. Combine the overhaul of government functions and organizational streamlining with the improvement of the structure of government personnel and their quality. Diligently create the conditions and use both short-term rotational training and long-term training to give every leading cadre an opportunity for systematic learning at every point in time. Through training, familiarize leading cadres at all levels with social management and economic management, particularly macroeconomic management, and equip them with market economic theories and macroeconomic management theories to enhance their ability to steer the economy.

FINANCE, BANKING

Establishment of Foreign Trade Bank Urged

93CE0713B Beijing GUOJI MAOYI [INTERTRADE]
in Chinese No 5, 15 May 93 pp 25-28

[Article by Han Jiyun (7281 4949 7189): "Establishing China's Foreign Trade Bank"]

[Text] I. Necessity

A. Reform and opening up is China's permanent and staunch state policy.

To help China realize the four modernizations and raise our living standards, at the Third Plenary Session of the 11th Party Central Committee, the party summed up our historical experiences and lessons and went with the flow of the world's economic trend and the development of high-tech and advanced technologies and seized the opportunity to propose the grand strategic decision of reform and opening up. After 14 years of hard work, today China's export-oriented economy has begun to take shape, and basically we have opened up in all directions. We have been very successful in the areas of foreign trade, foreign capital use, and foreign economic and technological cooperation. Because reform and opening is a staunch and permanent state policy, we have the policy safeguard and the theoretical basis for establishing a state foreign trade bank, and establishing a state foreign trade bank also complies with the principle of continuous development and breakthroughs in the course of reform and opening up. Under today's circumstances, much can be accomplished by having a state foreign trade bank.

B. China's balance of payments and international reserve are in good shape.

International balance of payments reflects a nation's foreign economic strength and acts as a barometer for the nation's foreign economic activities. International reserve refers to the internationally accepted liquid assets a nation officially holds which can be used to make foreign payments and maintain the exchange rates. It primarily includes the gold reserve and foreign exchange reserve that can be used to meet international payments. Today, it is generally believed that the cash reserve nations have deposited with the IMF and their Special Drawing Rights are also part of their reserved assets. Since reform and opening up and in the wake of the expansion of foreign trade and the continuous development of our national economy, China's balance of payments and international reserve situation have been in good shape. In particular, our foreign currency reserve has continued to grow, which has greatly increased our economic and financial strength. Statistics show that in 1990 and 1992, we had a cumulative surplus of \$22 billion after balancing our regular revenues and expenditures. In March 1992, we had a gold reserve of 12.67 million oz and foreign exchange reserve of \$43.470 billion (based on the old method of computation). Specifically, the state's foreign exchange balance was \$23.920 billion; Bank of China's foreign exchange balance was \$19.559 billion. These represent significant increases compared to previous years. China's international payments are balanced and its international reserve is growing, and these have laid the material foundation for the establishment of a state foreign trade bank; they make the project less difficult, which makes it

easier for us to make plans and take action and in turn increases our chance of success.

C. China has successfully opened some financial organizations and institutions that engage in foreign exchange business either exclusively or as a sideline.

Before reform and opening up, all of China's foreign exchange businesses were handled centrally by the Bank of China, the state's specialized foreign exchange bank. With the implementation of the policy of reform and opening up and the development of the export-oriented economy, allowing only one bank to handle all foreign exchange businesses could no longer meet the needs of economic development, handle the constantly expanding tasks in foreign capital use, satisfy the growing demand for foreign exchange funds at home, and meet the needs of providing many different types of high quality foreign exchange financial services. For these reasons, China began to restructure and readjust the foreign exchange business management system in 1979. The purpose was to expand the scope of foreign exchange business management and raise the standard and improve the quality of foreign exchange business and increase Sino-foreign financial cooperations. After 14 years of hard work, we have successfully opened some financial organizations and institutions that handle foreign exchange business exclusively or as a sideline, and they include Sino-foreign joint venture banks as well as foreign-owned banks: For example, China International Trust and Investment Corporation, Bank of Communications, China Trust Industrial Bank, Guangdong's Development Bank, Shenzhen's Development Bank, Fujian's Xingye Bank, Shekou's Merchant Steam Navigation Bank, Xiamen's International Bank, China International Finance Company Ltd., and Zhuhai's Nantong Bank. In addition, Bank of Industry and Commerce, Bank of Agriculture, and Construction Bank and their branches also were given permission to conduct foreign exchange business in 1988. According to the State Exchange Control Administration's statistics, currently, nine banks and their 200 branches and subsidiaries, 31 foreign-owned banks, one Sino-foreign joint-venture bank, one Sino-foreign finance company, and 119 nonbank financial institutions have permission to operate foreign exchange business. Nationwide, we have developed a new financial pattern where banks and financial institutions offer overlapping foreign exchange businesses, compete with one another, promote one another, and help improve one another. The opening of the above financial organizations and institutions not only has enriched our socialist school of finance but has also enabled us to gather some tentative experience in establishing and managing foreign exchange banks. These factors will be very helpful when we set up a state foreign trade bank. Today, we should seize the moment and take advantage of these financial organizations and institutions and lose no time in setting up a state foreign trade bank to promote the development of the export-oriented economy and the thorough reform of the financial system.

D. The western developed nation's experiences in setting up foreign trade banks.

The United States, Britain, Germany, Japan, France, and other western developed nations have a long history in the operation of foreign trade banks. Their guiding ideology is basically to fully use their credit policies and financial measures to improve the quality and increase the quantity and competitiveness of their export goods, to expand and win markets abroad, and to strive for higher profit and promote their own nation's economic development, and they hope to accomplish all these without violating GATT regulations. The Western developed nations generally operate two types of foreign trade banks, official and semi-official. Official foreign trade banks usually operate with a certain amount of state-allocated funds, but they have autonomous management rights, and basically they are independently accountable and must take care of their own profits and losses, and their businesses are guided, supervised, regulated and controlled by the central bank. Semi-official foreign trade banks are funded by the state together with other financial groups and companies. Generally, they operate under a shareholding system and are managed by their respective board of directors. They are autonomous and must take care of their own profits and losses, and their operations are also guided, supervised, regulated and controlled indirectly by the central bank. In terms of organization, except for the main office of a state foreign trade bank, the branches and subsidiaries are located all over the country and overseas, and they form a complete system and network. The scope of their operation tends to be fairly broad. Primarily, it includes trade and nontrade international settlements, foreign trade credit and foreign exchange credit, enterprise loan and export credit, international bank group loans and commercial credit, international trust and investment and international leasing, the buying and selling of foreign currencies and gold, the issuance of negotiable securities and bonds, export insurance and guarantee, all types of foreign exchange deposits and remittance, savings deposits, signing agreements with foreign governments and central banks, and participation in international financial activities. In terms of means of providing services, they all use the latest financial tools, advanced technologies and equipment, computerized operating systems and so on. In short, the Western developed nations have accumulated rich experiences in foreign trade bank's installations, credit policies, financial measures, service standards and so on, and we should emulate and learn from them. We should stay in touch with these western foreign trade banks, amplify their strong points and avoid their mistakes, and strive to set up a modern state foreign trade bank with Chinese characteristics.

II. Specific Ideas in Setting Up a Chinese Foreign Trade Bank

Establishing a Chinese foreign trade bank is a fairly large project. It requires the state's vigorous support and effective cooperation from all quarters of society. The

author has designed the following concrete steps for setting up a Chinese foreign trade bank:

A. The Chinese foreign trade bank should be governed by the People's Bank:

The People's Bank is China's central bank. Its main tasks are to guide and manage the nation's financial affairs, concentrate on the research and formulation of the nation's macroeconomic financial decisions, strengthen credit fund management, and keep the currency stable. Its specific functions include studying and drawing up the financial guiding principles, financial policies, decrees, and basic systems; controlling currency issuance; formulating the state's comprehensive credit plans; managing the credit funds at the central level; managing the revenues and expenditures on behalf of the treasury; issuing government bonds; administering renminbi deposit rates and exchange rates centrally; controlling the state's foreign exchange and foreign loans and the state's foreign exchange reserve and gold reserve at the central level and so on. Thus China's foreign trade bank's operation should be guided, supervised, and checked by the People's Bank. Its status should be equal to that of Bank of Industry and Commerce, Agricultural Bank, Construction Bank, Bank of China, and other specialized banks. Specifically, the foreign trade bank is an economic entity specializing in the credit business; it is tailored for the People's Bank's financial administration and management. It must implement the guiding principles, policies, decrees, and systems formulated by the People's Bank as well as the decisions made by the People's Bank's board of directors. In terms of operation, its relationship with the People's Bank is that of depositor and borrower, but meanwhile it has total autonomy in management and can promulgate its own credit principles and financial policies based on the state's and the People's Bank's guiding principles and policies and its own characteristics. In short, only under the unified leadership and with the support of the People's Bank and only by cooperating with the other specialized banks can the foreign trade bank truly give play to its own superiority and role in promoting the development of China's foreign trade and export-oriented economy.

B. The foreign trade bank's financial scope:

Based on the experiences of Western developed nations, China's foreign trade bank should not operate with too much or too little capital to start with. If funds are limited, it cannot give play to its role as a specialized foreign trade bank and cannot help promote the development of export trade. Too much capital will add to the state's financial burden and affect the state's input in and the development of other industries. Looking at some Western developed nations' foreign trade banks, our bank should at best have \$25 billion to work with. These funds may be raised through the following channels: One, state allocation: this is the main fund-gathering

channel. Considering China's ample foreign exchange reserve, the Finance Ministry should be able to allocate \$15-18 billion. Second, issue foreign exchange bonds at home and abroad. Statistics show that currently Chinese citizens have at least \$10 billion in foreign currency deposits. We can use high interest rates and other means to attract some of these funds. Third, issue foreign bonds. This was the fastest growing means of raising funds in the 1980s. Today, there is a large amount of "idle money" in the international financial markets. We can adopt preferential interest rates and early redemption and other ways to attract some of these funds; we can issue \$4-5 billion's worth of foreign bonds. Four, take out international commercial loans. So long as it benefits us, we should borrow international commercial loans that have fairly low interest rates and fairly long repayment periods. The total loan amount should be kept at around \$4 billion. Through the above efforts, I think we can easily raise \$25 billion in capital to set up a foreign trade bank in China.

C. The nature, tasks, and functions of China's foreign trade bank:

The foreign trade bank should be a state bank specializing in foreign exchange and has the important responsibility of supporting China's foreign trade operations and developing the export-oriented economy. It is the main window through which we conduct our foreign financial activities. The foreign trade bank should be completely official, and in terms of operation, it should be independently accountable, responsible for its own profits and losses, and be held responsible to the state. Its main duties are to comply with the state's relevant financial policies and guiding principles and make use of all the credit policies and financial measures to support the import and export activities of manufacturers of machinery and electronic products and foreign trade enterprises and also take care of international economic cooperation and exchange and all activities that facilitate the expansion of foreign trade. It should take part in cooperation and competition in the international financial realm and effectively promote China's foreign trade operation and the development of our export-oriented economy and continuing reform and opening up. Its specific functions should include the following: It should provide jumbo, low interest buyer's credit and seller's credit to foreign trade enterprises; take care of discounted collection; provide intermediate-term loans to foreign financial institutions we are cooperating with; provide guarantee and insurance for foreign trade enterprises; provide funds for large domestic and foreign projects; provide loans or insurance for the export of large, complete sets of equipment; provide low-interest loans to export manufacturers, especially manufacturers of machinery and electronic products for export; provide loans to the "three kinds of wholly or partially foreign-owned" enterprises. In short, as a policy-oriented state bank, China's foreign trade bank should vigorously nurture and give support to China's foreign trade activities via low-interest loans and other financial measures.

D. Specific procedures for setting up China's foreign trade bank:

Setting up China's foreign trade bank will be a major event in the course of restructuring China's financial system, and we must proceed with caution, but considering China's rapid economic development today, especially the tremendous pressure our foreign exports are facing, I do not think it would be wise to put it off much longer; otherwise we may miss the strategic opportunity and will adversely affect our Eighth Five-Year Plan and prevent our economy from taking off. Thus, the state should take decisive measures and promptly put setting up a foreign trade bank on its agenda, striving to complete the initial steps and put it into operation within two years. In view of the many problems and all that is going on today, the state can take two separate steps in setting up the foreign trade bank, that is, adopt a guiding principle of making it a step-by-step process:

1. The near-term goal is to get the experts together to study the issue and set up the foreign trade bank's main office and open several major branches.

Conducting feasibility studies and theoretical debates is the basic guarantee of the establishment of China's foreign trade bank. At this stage, the state should gather the relevant financial experts, economists, foreign trade experts and so on to investigate, study, and debate and especially conduct a thorough study of the functions, size of capital, actual role, and specific duties of foreign trade banks in the United States, Japan, Germany, Britain, France, and Korea and so on (for example, U.S. and Japanese banks have been very effective in extending financial help to exporters.) We must strive to be accurate and meticulous, leaving no stones unturned. At the same time, nations that have not set up foreign trade banks (such as India) should be looked into to see how they support their foreign exports. In this way, upon repeated debates and proofs, we can be sure of our foreign trade bank's success. After we are sure of its feasibility, we can then set up a preparatory organization to put the concrete plans into effect. First we should set up the headquarters of the foreign trade bank, and at the same time, we can also set up several branches in the major cities and economic zones and also pave the way for several overseas branches, striving to complete the framework for the foreign trade bank and put it into operation within two years.

2. The long-term goal is to set up branches and subsidiaries in every province, autonomous region, municipality and all major countries with whom we have economic and trade relations to form a complete foreign trade bank system and network.

When the foreign trade bank first begins its operation, no doubt it will be constrained by its scale, organizational layout and other factors and will not be able to give full play to its functions and intended role. To truly give play to the foreign trade bank's functions and intended role, we must further improve and amplify its system so that

it forms a huge network inside and outside of the country. This is its future direction and is also the key to whether it will eventually rank among the great international banks. With the goal of turning China's foreign trade bank into a fully-equipped, modern, first-rate international bank, after setting up its headquarters and the pertinent branches and subsidiaries, and as we practice, learn, and improve, we should immediately open up branches in all provinces, autonomous regions, municipalities, and major countries with whom we have economic and trade relations to form a complete system and network as soon as possible. Preferably, we should complete this process within two or three years. In this way, surrounded and protected by so many branches and subsidiaries at home and abroad, and with their cooperation, the foreign trade bank will be able to play its role in supporting our foreign trade undertakings and promote the development of our export-oriented economy and usher our foreign export into a new phase and turn China into a truly great trading nation in the world.

Furthermore, it must be pointed out emphatically that when establishing the foreign trade bank, we must pay special attention to perfecting Bank of China's existing functions and vigorously give play to its important role in supporting exports. We should smooth the relationship between the foreign trade bank and Bank of China in terms of delineating their respective business scope and actively encourage them to join hands and act as a pair in promoting the development of China's foreign trade undertakings and strengthening our international financial industry and help China's financial industry shine brilliantly in the international economic arena.

AGRICULTURE

Ways To Improve Investment in Agriculture

93CE0723A Beijing JINGJI KEXUE [ECONOMIC SCIENCE] in Chinese No 3, 20 Jun 93 pp 12-18]

[Article by Task Force for the Study of Chinese Agriculture Investment Problems: "Investment in Agriculture: Choice Between a Historically Uniquely Difficult Problem and Grim Reality"]

[Text] Agricultural investment means the inanimate labor consumption and the animate labor accumulation that the state, collectives, and agricultural households provide to the rural farming industry, forestry, water conservancy, meteorology, livestock industry, aquatic products industry, agricultural land reclamation, farm mechanization, and other rural endeavors. It includes the investment in agriculture by the central government and local people's government at all levels, the agricultural credit that state banks and other financial institutions issue, the agricultural credit that foreign governments and international financial institutions provide, the outlays of a production and operating nature, and labor inputs into agriculture of community collective economic organizations and peasant households.

It is common knowledge that China is a large developing agricultural country in which agriculture is of major

importance for economic development, social stability, and the ability of the nation to stand on its own two feet. Therefore, the 14th party congress report emphasized the need for "a high degree of serious attention to agriculture," and "increased investment in agriculture in many different forms and through many different channels." This is a scientific decision that has been repeatedly validated through practice during the past more than 40 years of the tortuous development of China's agriculture. At the present stage in China's development, in particular, when the material and technical foundation is weak and reserve strength for development is lacking, correct understanding of the agricultural investment mechanism, gradually increasing the investment in agriculture of the state, collectives, and the peasants, and building an accumulation and investment mechanism to develop agriculture certainly holds extremely important practical significance, for advancing the sustained and steady development of China's agriculture.

Challenges: Status of Investment in China's Agriculture During Transformation

Taking the fixed agricultural investment pattern and investment accumulation mechanism as a given, the status of China's investment in agriculture may be portrayed from four different angles as follows:

1. Total Investment in Agriculture: Grossly Inadequate

A large body of facts shows that as investment in agriculture increases, the output value of agriculture increases. Between 1950 and 1980, the lead coefficient for investment in agriculture in the United States was 1.17. In the United Kingdom, it was 1.42, and in Japan it was 1.68. Investment in agriculture as a percentage of gross agricultural output value is an important indicator for reflecting ability to make further inputs into agriculture. In 1980, this percentage was 28.6 percent for the United States, 22 percent for the United Kingdom, and 12.1 percent for India. In China, however, a retrograde situation occurred of sluggish increase in investment and decline in the amount of investment in agriculture. One can determine in two ways that total investment in agriculture in China is insufficient: Calculations based on the correlation between agricultural growth and increase in agricultural output value show a 5.2 percent per year increase in the gross output value of China's agriculture between 1953 and 1980, and investment in agriculture increased an average 8.1 percent each year, producing a lead coefficient of 1.16 for investment in agriculture. Using this coefficient as a basis for calculations, the ideal value for investment in agriculture in China from 1981 to 1988 should have been 42 billion yuan more than the actual figure. Looked at in terms of the reinvestment in agriculture, 39.4 percent of the gross output value of agriculture was reinvested in 1978, the percentage declining to 31.6 percent in 1989. If the 1979 portion of the gross output value of agriculture reinvested is used as a basis, between 1980 and 1988 annual total investment in agriculture was an average 5 billion yuan less than it should have been.

2. Course of Investment in Agriculture: Abnormal Ups and Downs

During the 34 year period from 1953 to 1986, gross investment in agriculture in China increased 3.6 fold, or an average 12 percent each year. However, investment dipped 11 times, the average dip being 31.1 percent, two times more than the average dip in the gross output value of agriculture. State investment in agriculture dipped the most to as much as 54.6 percent. This included the greatest dip of 196.7 percentage points in investment in capital construction. Dips averaged 93.7 percent. This indicator is far higher than the dip in either total gross investment in agriculture or the gross output value of agriculture.

3. Sources of Investment in Agriculture: Structurally Fractured

First, decrease in state investment in agriculture, and the outflow of agricultural credit funds have produced an enduring and complete fracturing of the investment needed for the development of agriculture. State investment in agriculture during the Fifth Five-Year Plan totaled 69.341 billion yuan. This decreased to 68.848 billion yuan during the Sixth Five-Year Plan—a 35.3 percent of the total amount. The amount of money allocated for investment in the capital construction of agriculture increased from the First to the Fifth Five-Year Plan. After 1980, however, a sharp decline began. By 1988, only 3.964 billion yuan was invested, meaning a 63.51 percent decline from 1978. At the same time, a great outflow of agricultural credit funds also occurred in China. Second, the reduction in government investment in agriculture, and the weak ability of rural collective economic organizations to accumulate funds led to a fracturing of the investment needed for the development of agriculture within regions. Furthermore, in view of the simultaneous decrease in both national and local investment in agriculture, not only did we not formulate policies to encourage and guide peasant households to invest, but we put numerous roadblocks in their way that restrained expansion of peasant household investment in agriculture. This brought about the third "fault zone" in China's investment in agriculture.

4. Principal Investment Entities: Skewed Behavior and Dislocations

A. Skewed government investment in the wake of implementation of the funds substitution policy.

First of all, guiding policies for the substitution of investment skewed the state's responsibility for investing in agriculture. Implementation of the rural output-related contracting system, and product price policy readjustments produced the ultra-high speed growth of agriculture during the early 1980s. Moreover, growth of agriculture reinforced the effects of policy and diluted interest in increasing investment. Despite the varying degrees of interest in the agricultural investment

problem that central government documents on agricultural problems show, the reality of a steady decline in investment in agriculture has not attracted the serious attention that it should.

Second is dislocations in the form and substance of investment orientation. State investment in water conservancy construction takes the lion's share of investment in agriculture. It has consistently taken more than 50 percent, and 80 percent of the investment in water conservancy has been spent on large river projects. However, benefits from the harnessing of large rivers and the construction of large river projects go far beyond agriculture. Such projects have a direct or indirect bearing on every trade and industry in society. Broken down by investment sector, current investment statistics are of two kinds. One is administrative statistics on the amount of investment in each sector; the other is statistics on how the investment is used in each industry. Generally speaking, investment figured on the basis of sectors should be greater than investment figured in terms of industry-by-industry statistics. The increasing difference between the two shows that more and more of the investment by sector is going into industries other than agriculture. Up until the Sixth Five-Year Plan, investment in agriculture accounted for more than 80 percent of administrative system investment. During the Sixth Five-Year Plan, this investment averaged 80 percent, falling to 66.1 percent by 1987.

Third is the dislocation between the methods and goals of the orientation of investment. The overall process of reducing investment in agriculture was one in which the reduction of state, collective, and peasant household investment in agriculture proceeded from first a state, then a collective, and finally a peasant household reduction. Reduction in state budgeted investment in agriculture set off a fall in investment in agriculture throughout society. Up until 1983, investment in agriculture showed a steadily rising trend, always remaining at around 10 percent of total investment. The year 1986 brought to an end the many year rising trend in all society's investment in agriculture. A major slide occurred, the percentage falling from 7.7 percent in 1985 to 4.1 percent in 1989. At the same time, the state several times raised interest rates on agricultural loans, thereby causing a further increase in agricultural production opportunity costs that put a damper on peasant household expansion of investment in agriculture.

B. State macroeconomic agricultural policy deviations led to skewed peasant household investment behavior.

First, investment in consumption replaced investment in production, thereby distorting accumulations. In 1984, peasant households invested 13.973 billion yuan in the purchase of fixed assets for production purposes, but this decreased to 7.181 billion yuan by 1986, and despite a 1988 increase over 1986, investment was still 4.755 billion yuan less than in 1984. Moreover, between 1984

and 1988, peasant investment in the building of houses shot up from 23.938 billion yuan to 74.122 billion yuan in a 2.1 fold increase.

Second short-term investment replaced long-term investment, the trend toward short-term peasant household investment being marked. This was manifest in a concentrated way in peasant households' plunder-style farming of the land, the investment in the land of inanimate and animate labor greatly decreasing and causing a decline in soil fertility.

Third, increase in commodity style investment slowed, a situation sometimes occurring in which self-sufficiency style investment replaced commodity style investment. For example, peasants began making their own hand tools in large numbers, while large and medium size farm machines were allowed to become old and deteriorate.

Fourth, investment in other than agriculture replaced investment in agriculture, the trend toward peasant investment in nonagricultural pursuits intensifying. State Statistical Bureau statistics show that in 1983 the average original value of productive assets was 1,033.03 yuan per peasant household, up 564.90 yuan from 1983. Of this amount, increase in the original value of agricultural fixed assets accounted for 42.6 percent of the total increase. Increase in nonagricultural fixed assets accounted for 53.1 percent. It is particularly noteworthy that the tendency to use agricultural fixed assets for nonagricultural purposes was extremely strong. In 1988, the number of large and medium size tractors and small hand tractors increased by 125,000 and 4.082 million respectively over 1980. Meanwhile, the cultivated land area decreased 76,000 hectares.

The main factors influencing investment in agriculture in China today are of the following three kinds:

1. The trend toward urbanization of macroeconomic policy has led to a trend toward investment nonagricultural industries.

Since the PRC was first founded, it has pursued an economic development strategy tilted in favor of heavy industry, and no correction to this industry-oriented development strategy has been made since 1978. On the contrary, the policy has led to a trend toward urbanization on an even larger scale.

First, government credit policy, which favors industry at the expense of agriculture, has led to serious starvation of investment in agriculture.

During the First Five-Year Plan, government invested 4.1 billion yuan in the capital construction of farming, forestry, water conservancy, and meteorology. This amounted to 7.1 percent of total national economic investment. During the Second Five-Year Plan, the percentage rose to 11.3. During the Third and Fourth Five-Year Plans, it fell again to 10.7 and 9.8 percent, and during the Sixth Five-Year Plan, it was only 5.1 percent.

However, the macroeconomic investment pattern happened to be just the reverse. During the past more than 30 years, China has maintained a high accumulation rate of approximately 30 percent, three-fourths of it accumulated by the national government. The low consumption that high accumulation caused has held down further expansion of agricultural demand, however. Since the Sixth Five-Year Plan, credit inputs have continued to decrease. As of the end of 1989, agricultural bank and credit cooperative agricultural loans totaled 95.042 billion. This was only 23.1 percent of agricultural bank and credit cooperative total credit, and 5.7 percent of the total credit of all banks and credit cooperatives, the two declining 3.7 and 1.3 percentage points from 10 years previously.

Second, unequal industrial and agricultural product trade policies created a relative decline in returns from agriculture.

A comparison of inland China prices with border region prices of farm products and industrial inputs used in agriculture in 1982 confirms this point. In 1982, inland China prices of several farm products including paddy rice, wheat, corn, rape seed, jute, and hogs were 46.9, 23.6, 22.9, 44.4, and 49.8 percent lower than border region prices. By contrast, inland China prices of industrial inputs used in agriculture such as urea, ammonium carbonate, and calcium superphosphate were 16.8, 19.2 and 45 percent higher than in border regions. The authorities concerned estimate that more than 30 billion yuan of agricultural income each year flows into other sectors of the national economy, thereby creating the conditions for high labor productivity rates and high profit rates in industry and other sectors.

In response to the above two situations, the discrimination against agriculture of China's macroeconomic policy is also manifested in arbitrariness and inconsistency in the framing of agricultural policy and the way it is carried out. An example is the too rosy estimates of the state of agriculture, which have given rise to a series of policy measures detrimental to agriculture. When the first step in rural reform ended, before taking the time to summarize and study numerous problems that had cropped up in the course of reform, recommendations were made to concentrate cultivated land in the hands of skilled tillers. Specialized households and new economic partnerships were developed in a hasty quest for great achievements during the second step in reform. Consequently, the peasants felt that policies changed frequently. This caused a sharp dip in agricultural output.

2. The current fiscal system has sharpened local government dual function conflicts.

Prior to economic system reform, conflicts between governments' dual functions were hidden and intermittent. Following system reform, particularly following introduction of the market mechanism and its gradual strengthening, the conflicts came to the surface and

sharpened. First, the fiscal policy of level-by-level contracting increased local governments' economic profits, which stimulated local government short-term behavior. Consequently, investment in agriculture was intercepted and squeezed out. Second, enterprise system reform increased enterprises' and government departments' profits. As a low profit industry, agriculture could pay only low prices for the funds, materials, and services it received. If the state did not provide sufficient subsidies to these sectors, the units that supported agriculture faced two difficult choices: They could either sacrifice the interests of the peasants for the sake of the interests of enterprises, increasing prices of materials for the support of agriculture; or they could sink into a predicament in which they made no or extremely little profit. Obviously, eager for quick success and instant benefit, enterprises chose the former.

3. The incompletely developed land use system and irrational price parities have worsened the climate for peasant household investment.

First is the difference in returns from investment in agriculture versus investment in nonagricultural industry. This makes rural families extraordinarily sensitive to market information, peasant households using trends in immediate farm product prices to forecast next quarter gains. They decide whether to expand or contract, accept or reject investment in agriculture on this basis rather than taking a optimistic attitude about long-term prospects. According to statistics from the State Statistical Bureau's Rural Survey Team, between 1979 and 1984, peasant household earnings increased 52.90 yuan from the rise in prices of farm products. Since they also spent 23.48 yuan more as a result of the rise in prices of agricultural means of production and articles used in daily life, their net income increase was 29.40 yuan. Peasant household holdings of fixed agricultural assets steadily increased. Between 1985 and 1988, peasant income increased 129.72 yuan per capita from the rise in farm product prices, but since they spent 133.73 yuan per capita more for agricultural means of productions and articles used in daily life, their net benefit was a negative value. This markedly weakened the function of farm product prices in guiding investment in agriculture.

Second, lack of economies of scale hamper expansion of investment demand. Economies of scale are a long-term factor guiding investment in agriculture. The reason is that once the economies of scale break the profit break even point, the sharp expansion of profits induces an expansion of investment. Under the present system in which rural land is collectively owned, all peasant households having equal right to contract the farming of a plot, land cannot be explicitly transferred. However, since the peasants in the work force who are able to transfer into nonagricultural pursuits retain still their peasant status permanently, their right to equal use of the land is long term. Statistics show that between 1979 and 1987, land holdings fell from 8.6 to 7.1 mu per peasant household in China, and the amount of land for which each member

of the work force was responsible declined from 5.4 to 4.7 mu. The family output-related contract system spawned peasant household operating budget restraints, but lack of the economies of scale have made readjustment of the cost-profit ratio impossible. Thus, a contraction of investment is virtually unavoidable.

Third, too short contracting periods and frequent changes in land use rights conflict with the slowness in obtaining a return from investment in agriculture. This means that peasant households cannot obtain a return from their long-term improvement of the land. Consequently, they are unwilling to make a long-term investment in the land.

Normalize and Guide: Choice of Remedies for Investment in Agriculture

As the market system becomes more pervasive in the rural economy, the short-term character of China's investment in agriculture will become increasingly apparent. How to coordinate the macroeconomic with the microeconomic, and how to alleviate the problem of a demand for rural funds that is greater than the supply have become major difficulties on the road to developing the rural economy. Moreover, without doubt, only by relying on the separate strengths and the coordination of the state, peasant households, and the banks as the three main investment entities can these difficulties be solved. Therefore, on the basis of the foregoing analyses and judgments, this article proposes the following remedies.

1. Build a macroeconomic restraint mechanism to normalize government investment behavior

Because of the peculiarities of the farming industry, state support for agriculture has become a universal phenomenon throughout the world. On the basis of the lessons of experience with problems in the development of agriculture during the past several decades, and with reference to the basic methods and achievements of foreign countries in normalizing state support for the development of agriculture, we believe that China today very much needs to set up a system for normalizing support, and laws to regulate support for the development of agriculture.

A. Widening of Sources of Funds for Government Investment in Agriculture

Widening of the sources of funds for government investment in agriculture has three main components as follows: First is the need for a fundamental change in government's favoring investment in nonagricultural industries. Many scholars believe that China has advanced from the primitive accumulation stage to the intermediate stage of industrialization. Industry possesses substantial self-accumulation capabilities and self-development capabilities. The historical mission of agriculture in providing accumulations for industry is largely over, and the time for correcting the tilt toward development of industry is at hand. Therefore, the role of agriculture in the development of the economy must be

reappraised, emphasis placed on agriculture during the new period. Only in this way can a speed up in government investment in agriculture be fundamentally guaranteed. Second is the need to use provisions of the law to regulate the amount and incremental increase in the proportion of investment in agriculture, notably investment in the capital construction of agriculture within state plan as a percentage of total investment in capital construction within plan; outlays for farming, forestry, water conservancy, and meteorology, and for the support of rural production as a percentage of total government fiscal outlays; the amount of the three expenditures for agriculture; science and technology as a percentage of the three expenditures for all science and technology, and government investment in industries producing products for agriculture as a percentage of all government investment in industry. Third is the level-by-level establishment of an agricultural development fund system. Included in such a agricultural development fund system: revenues from the use of cultivated land, a 10 percent state budget regulation fund; most of the township and town enterprise taxes (including the product tax, the business tax, the added value tax, and the industry and business income tax) above the previous year increase; most of the farm and forestry special products tax; the main part of the rural individual industrial and commercial household and the rural privately owned enterprise tax above the previous year increase; and technical transformation expenses for grain and other farm products. The central government and local governments at all levels should also establish various special agricultural development funds as actual agricultural production needs require.

B. Straighten out the relationship between central government and local government powers and fiscal authority regarding investment in agriculture

The basic principle for dividing up central government and local government powers is to link organically central government centralism with local self-decisionmaking authority to make the most of the initiative of both the central government and local governments, allowing local governments to do more things. On the basis of this principle, we will make the following concrete division between central government and local government fiscal support for agriculture: (1) a division based on the scale of investment required for an agricultural project, major construction projects having a bearing on the national economy and the people's livelihood such as the building of large farmland water conservancy projects, and the large scale exploitation of agricultural resources requiring central government fiscal support. Local governments may provide fiscal support for the building of medium and small farmland water conservancy projects, as well as for the improvement of existing water conservancy projects. (2) A division based on the size of the area that the project covers, agricultural capital construction projects that cut across river basins, that involve several provinces, and that both need centralized planning and large amounts of

central government financial investment receiving financial support from the central government. Small projects for the harnessing of a river basin, for the development of agriculture in a region, or for the building of a socialized services system that provides services to agriculture before and after production may be financially supported by local governments. (3) A division based on returns from the agricultural support project and the amount of social benefit, agricultural construction projects having a very great effect on the ecological environment over a wide area, or that cannot produce high economic returns within a short period being properly the responsibility of the central government to provide support. Projects having a regional social benefit or ecological benefit, as well as agricultural development projects from which economic returns are outstanding might properly be the responsibility of local governments for providing support. (4) A division based on the size of the role of the agricultural support project, the central government providing financial support for agricultural scientific and technical experimental projects having a national orientation, or that are of a demonstration, service, support, or developmental nature. Local projects of the same kinds should be provided local government financial support. (5) For projects requiring a joint central government and local government effort, the responsibilities of both parties may be decided on the basis of the agricultural support investment operating situation.

As a corollary to the division of authority, the financial authority of the central government and local governments must be made clear to ensure that governments at all levels discharge their financial responsibility for the support of agriculture. This includes: (1) Building of a financial revenues system for the support of agriculture that is able to ensure that central government financial resources and financial authority are correspondingly concentrated, and that can help the central government's macroeconomic regulation and control of agriculture. (2) Institution of a supplementary assistance system whereby the central government disburses funds to local government. The key principle in the division of power is to give local governments more responsibilities, but the main guideline in the division of fiscal authority is requiring the central government to possess a certain amount of financial resources and fiscal authority. To solve this contradiction, central government fiscal support for agriculture can be exercised through supplementary disbursements to local treasuries. Actually, such a fiscal revenue transfer is also a process for central government increase of its macroeconomic regulation and control. It makes for closer links between the central and local government treasuries on agricultural support ventures.

C. Establish a government agricultural investment operating system that combines responsibilities, rights, and benefits.

First is reform of the traditional methods of investing funds. Since the founding of the PRC, the government

has long used a method of directly allocating money for the support of agriculture without receiving payment for its use. Although this method played a very great role in rapidly reviving agricultural production following liberation, free use of the money reduced returns from investment in agriculture and intensified the problem of a demand for funds that is greater than the supply. In recent years, a circulating fund and payment for its use has been instituted in government financial support for agriculture that has increased returns from the use of government funds used for the support of agriculture. Nevertheless, the range of use of this circulating fund method is too prescribed. Were investment in large and medium size profit-making agricultural projects also to come under this circulating fund system, a form of investment instituted that includes issuance and collection, revolving use, and repayment of capital plus interest (or fees), not only would it be possible to improve benefits from the use of government funds for the support of agriculture, but a large saving of government funds could be realized, more projects undertaken using less funds.

Second, is "personalizing" government agricultural investment funds. First is making the Bank of Agriculture, in its role as the primary operating investment system, responsible for investment and operational control over agricultural loans and government circulating funds for the support of agriculture (including circulating funds for large and medium size projects). Second is a fiscal system for investment in agriculture for policy reasons to take the place of government controlling government funds for the support of agriculture for which no payment is made, this fiscal system bearing responsibility for investments made for policy reasons. The state should stand aside, devoting itself to the macrocontrol of funds invested in agriculture.

Third is better legal monitoring of results obtained from state investment in agriculture. A "National Agricultural Investment Law" should be drawn up with all possible speed. When drawing up medium and long-term, as well as annual national economic and social development plans and fiscal budgets, people's government at all levels should plan the investment of funds in agriculture in accordance with the "National Agricultural Investment Laws" provisions about the degree of increase and borrowing. People's congresses or Standing Committees at all levels have the authority to conduct inspections and supervision of government fiscal department's agricultural budgets, and planning departments' agricultural investment plans and how well they are enforced. Mindless investment, and investment in violation of regulations that occasion major economic losses for the country should be investigated, the persons primarily responsible being held economically and criminally liable to ensure that state investment in agriculture is made where it can produce results to ensure benefits.

1. Use of economic levers to change the economic climate for peasant household investment to promote

effective realization at the macroeconomic level of national macroeconomic policy goals. Institution of methods that link price rises to compensatory benefits, using methods such as decontrol of agricultural products purchase and sale prices, and institution of an award sales policy for major agricultural products to narrow the income difference between agriculture and nonagricultural industries as a means of encouraging peasant households to increase their investment in agriculture. Use of levers such as prices, taxes, and credit to optimize the rural investment structure. In addition to systematizing and standardizing state fiscal investment in agriculture to ensure that state investment in agriculture is made where it will do the most good, credit tilt policies should also be instituted to reverse the too small percentage of rural credit. In addition, the taxation sector should permit long-term investment of a developmental nature for peasant households, and products produced through the application of new technology should be handled in the same way as township and town enterprise Spark Plans a series of tax reduction and exemption policies instituted.

2. Promote the rural socialized services system together with dispersed peasant household farming to stimulate peasant households' investment in agriculture. The existence of advantages from family farming should be recognized, but the full release of the potential of this advantage is conditional, and the condition is the development of a socialized service system. (1) Reform and perfection of regional cooperative economic organizations must abide by the laws of development of a market economy. They should be guided by the market, making service their main theme. They should provide peasant households with services such as water conservancy irrigation, land management, machine plowing and harvesting, and information. Services should make the economy stronger, services increasing as economic strength increases, and the quality of service rising. (2) Establishment of some specialized cooperative economic organizations, the cooperative organizations using methods such as large scale planned purchases of the means of production and the means of livelihood that peasant households need, as well as the centralized processing and planned marketing of large amounts of agricultural products for attainment of the goal of stabilizing both prices and supply. This can greatly improve the external economic character of peasant households while simultaneously lowering business costs, promote the development and specialization of markets, and generate a risk sharing mechanism to promote increased peasant household investment in production.

3. Greater investment of manpower resources to make peasant household investment decisions more scientific and more rational. Through the investment of manpower resources, government can improve the peasants' ability to understand the natural and social environment. Even though the returns from an investment in peasant intellect would lag for a time, the losses from the lag would be made up by the manifold returns from the

investment in manpower. Therefore, basic education in rural villages must be improved, major efforts made to develop education for industrial staff members and workers and education for follow-on projects.

4. Legislation to define the investment function of main peasant household investment entities in the agricultural production and operating realm. The status of peasant households, the basic production unit in agriculture, and the gradual profit character of peasant households use of funds means that peasants must take responsibility for investment in routine production and operations, including the following: (1) the purchase of chemical fertilizers, agricultural pesticides, seeds, breeding stock, and ordinary farm machinery and tools; (2) field water conservancy facilities and soil improvement; (3) acceptance of experiments involving superior varieties and breeds, and scientific farming, and the raising of fish and livestock; (4) accumulating and increasing production and operating funds; and (5) the gathering together of work forces.

D. Building of a benefits coordination mechanism to improve agricultural credit.

1. Establishment of a government finance macroeconomic regulation and control system that promotes investment in agriculture. The following recommendations about government finance are offered for consideration. First is that government should set aside some money from funds obligated for the support of agriculture for use as a "discount fund" for Bank of Agriculture and credit cooperative credit. The government, the People's Bank, and the Bank of Agriculture can consult together on the formulation of a credit rate "protection price" for agricultural loans issued by the Bank of Agriculture and credit cooperatives. They can use this as a means of stirring the interest of the Bank of Agriculture and credit cooperatives in increasing investment in agriculture. Second is state financial guarantees, the Bank of Agriculture issuing throughout the country medium and long-term construction bonds for the development of agriculture for general use on agricultural development projects. Third is concessionary policies whereby Bank of Agriculture and credit cooperative business may be granted tax and profit payment reductions or exemptions.

2. Further improvement and enhancement of agricultural loan functions. This includes the three following specific ingredients: (1) Rectification of the distribution function. First, an industrial tilt policy must be put in place, bank and credit cooperative loan planning and funds allocation first satisfying the need for funds to develop agriculture, particularly the need for funds for the development of grain and cotton farming. Second, attention must be given to adjusting the agricultural credit distribution structure, increasing the percentage of medium and long-term development credit. Third is full use of the credit lever to foster the economic development of collectives that strengthens the collective

economy, diligently concentrating on building and perfecting a socialized rural service system, gradually expanding service organizations for science and technology, information, storage, handling of fresh and live produce, processing, transportation, disease prevention, and water conservancy, or providing project support. (2) Improvement of the coordination function. First is the establishment of a mechanism to coordinate government funds and credit funds. The state needs unified planning and coordinated arrangements for government loan support for agriculture. When government invests in a specific project, it has to discuss financial planning, and the investment program with the Bank of Agriculture. Credit funds are used mostly for the building of projects and for working capital. In addition, coordination of government funds and credit funds requires the establishment, on the foundation of a rational division of labor, of a means for genuinely solving credit loan problems associated with government involvement. Second is coordination of credit loans and the raising of agricultural development funds with distribution. Agricultural development funds should be kept by the Bank of Agriculture, and the Bank of Agriculture should take part in the centralized distribution and management of the use of agricultural development funds. It should also coordinate and dovetail the planning of agricultural development funds, and the investment of bank and credit cooperative agricultural credit. Third is coordination of credit with the investment of funds by rural organizations and peasant households, making full use of the economic regulatory role and the demonstration effect of agricultural credit to guide rural organizations and peasant households in increasing their investment in agriculture. (3) Revival and enhancement of supervisory and control functions. First, the Bank of Agriculture should set up more internal agricultural disbursement supervisory organs to ensure that agricultural disbursements are verified and paid in accordance with state budget and plans, thereby halting the violation of disbursement procedures and regulations and the waste of funds. Second is coordinated control of rural organization accumulations, making full use of banks' and cooperatives' own economic and business strengths, helping rural organizations set up and improve financial control systems, improving ability to accumulate funds, and genuinely improving guidance to rural organizations about how they distribute funds. Third is revival of the Bank of Agriculture's unified control over funds for the support of agriculture, improving the benefits of scale from the use of funds.

3. Correction of the credit investment behavior of rural financial enterprises

First is the straightening out of the relationship between credit control itself and financial operations as a whole, truly studying the problem of placing credit investment itself in the context of total investment in agriculture, considering remedies, and coordinating rural financial operations in an overall way. Second is straightening out the relationship between regulating the increase in agricultural credit with controlling the amount in being.

While continuing good regulation of the increase, emphasis should be placed on taking stock of the amount in being. This requires both diligent study of the current state of the banks' and credit cooperatives' credit structure and the flow of all forms of credit in being, drawing up tailored stock-taking measures, and applying credit, final settlement, and legal techniques in a thorough inventorying of the amount of agricultural credit available. It also entails the establishment of a fairly complete surprise credit monitoring and verification system to systematically reflect credit fund movements to increase the transparency of available credit control.

Analysis on Balance Between Grain Supply, Demand

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21 Jun 93 p 4

[Article by Han Yuanqin and Gao Qiongyao: "Differentiate, Analyze Aggregate Equilibrium Between Grain's Supply, Demand"]

[Text] The key to the improvement of the system of grain circulation lies in making an estimate of the aggregate equilibrium between grain supply and demand. This article is aimed at differentiating and analyzing, to the point, the aggregate equilibrium between grain supply and demand.

"Theory of Grain Surplus." As for China's current situation on grain supply, relevant departments at home and abroad estimate that supply exceeds demand. The natural conclusion drawn from this estimate is that we can now pay less attention to the production and supply of grain.

The fact is that on the issue of grain supply and demand in China, it remains a precarious balance with people's grain consumption at the lower end. This is shown by the current per capita grain consumption in China which is much lower than the 650 kg per capita grain consumption of a developed nation. It is also reflected by the every now and then unstable grain supplies when the grain supply and demand fluctuated in past years. China had a bumper harvest of grain in 1984. However, we had a precarious balance between grain supply and demand in 1985 when grain output dropped. China was short of 3.2 billion kg of grain during the three years prior to implementation of the Seventh Five-Year Plan. This forced China to increase grain imports and urge people to lower consumption to maintain an aggregate balance. All this shows that the judgment of a precarious balance is correct.

It must be realized that the equilibrium between grain supply and demand is not static and fixed, but dynamic. With the increase of people's grain consumption, the improvement of food structure, development in food processing procedures and the expansion of grain storage and circulation facilities, the current grain supply will no longer meet the new demand on the market. After doing a great deal of research work, experts in this connection

estimate that by the year 2000, China's per capita grain consumption cannot be less than 400 kg and by 2020, this figure cannot be less than 450 kg. Their estimate is precisely based on the aforementioned reason.

However, it is rather difficult to fulfill this task of achieving a balance between grain supply and demand. It is even considerably difficult to achieve the goal of supplying not less than 400 kg of grain per capita by the year 2000. We realize that the state draws up the plan to increase the total grain output to 500 billion kg by the year 2000, an increase of 14.9 percent or 64.71 billion kg over the actual grain output in 1991. However, the per capita grain consumption was only 384.4 kg at that time. To meet the requirement of per capita grain consumption of 400 kg, we must raise the total grain output to 520.33 billion kg, an increase of 19.5 percent or 85.04 billion kg over the actual grain output in 1991. This amount of grain is equivalent to 6.3 times of the amount of imported grain in 1991. If we take into consideration the factors that the area of arable land will decrease every year, that the proportion of grain field to arable land and to the area under crops will become smaller, and that there will possibly be more grain fields abandoned when peasants enter the market and compare their profits from farming with those in doing other jobs, the task of raising per-unit yield will be much more arduous than the task of increasing total grain output as seen at a glance.

"Theory of Substituting Aggregate Equilibrium With Structural Equilibrium." This theory is an extension of the view that as seen from the total grain output, the grain supply has already exceeded demand. It is believed that the major task of grain supply at present and in the near future is to substitute aggregate equilibrium with structural equilibrium. The conclusion is that the price difference between different varieties of grain crops is regulated by the market. When the price of grain crops in large quantity drops because of an oversupply, it forces peasants to grow diversified crops which are in great demand.

The structural readjustment of the relation between grain supply and demand and even the restructuring of all farm products are no doubt one of the major topics in agricultural development. Indeed, market is an effective means in carrying out such readjustment. However, we should also realize that there is a prerequisite to this readjustment. That is the aggregate grain equilibrium. We should strive to develop a reasonable structure for grain supply on the basis of an aggregate equilibrium. We must not run the risk of insufficient grain supply by changing the structure in the supply of grain crops. To pursue structural equilibrium may impose even higher demands on the total grain output. This is clearly manifested as follows:

1. The per-unit output of high-quality and diversified grain and bean products is often much lower than that of those varieties of grain crops which are high-yielding and in large amount. Expanding the area sown to the former

and decreasing the area sown to the latter would mean a drop in total grain supply. To achieve the goal of not decreasing the total grain supply, we have to find new ways to raise grain productivity.

2. The increase of the proportion of the intensively processed food with grain as the raw material would become another source of drain to the grain supply.

3. In changing the food structure, the increase of some of the component elements (such as fruits, vegetable and pastoral and fishery products which are produced without the use of feed grain) will reduce the demand for grain, while the increase of some other elements (such as those animal and poultry products which are produced with the use of feed grain) will call for greater grain supply. The general trend is that the demand for grain supply will grow. This will make the task of achieving an aggregate equilibrium in grain supply even more arduous than ever before.

The demand for feed grain in the future is the most important factor in combining the equilibrium of food structure and the aggregate equilibrium of grain supply. There have been many predictions and guesses. To make a comparatively realistic judgment, we like to make a rough estimate of an experimental nature of the additional feed grain needed between 1991 and 2000 on the basis of the actual growth of the amount of meat, poultry and eggs consumed between 1982 and 1991. We regard 1982 as the basic period. Within the period of nine years from 1982 to 1991, the per capita annual pork consumption actually rose by 5.69 kg, poultry by 0.96 kg, and eggs by 4.58 kg. According to the actual ratio of feed grain needed for pork, poultry and egg (pork 1:5, poultry 1:2.5 and eggs 1:3), the per capita amount of feed grain needed must be increased by 44.59 kg on a nationwide basis for producing pork, poultry and eggs alone. On the basis of the 1991 population growth, it is necessary to increase the feed grain output by 51.65 billion kg. If we make the calculation with 1991 as the basic period, we need to increase feed grain by 58 billion kg by the year of 2000. It means that for the production of pork, poultry and eggs alone, we need to increase the amount of feed grain to a new height. This indicates that structural equilibrium, to a great extent, depends on aggregate equilibrium. We should not pursue structural equilibrium without taking aggregate equilibrium into consideration.

"Theory of Precedented Price Decontrol." People often cite precedents in lifting control over the prices of aquatic products, fruits, vegetable and other farm products, calling on us to free up prices. They claim that when the prices are decontrolled on the market, a situation whereby everybody is happy will prevail without or with little twists and turns. Therefore, there is no need to worry about the aggregate equilibrium after grain prices are decontrolled. Even if the total grain supply drops for a short while, the total grain output will quickly rise when the market price of grain goes up.

When grain enters the system of market economy, naturally it has to rely on the support of market regulation. However, in regulating the supply and demand of grain, this "invisible hand" will affect the overall situation. Unlike market regulation on the prices of aquatic products, fruits and vegetable, which will only affect the income of the rural people and those in the local areas, it will influence most of the areas in the country, more than three quarters of the area under crops and the income of over 80 percent of the rural population. Therefore, we must strengthen our efforts and create more stringent conditions in carrying out market regulation. For example, grain markets are growing rapidly in various localities throughout the country, and the area sown to grain crops can be easily regulated. Grain can be stored and distributed at any time, and peasants' income can be readily replaced. These are the conditions we need. Some of the conditions can be gradually met in the course of developing the market economy, while others cannot be fulfilled by relying on the market alone. Only by relying on macroeconomic regulation of the state can effective results be attained. We take the possibility in regulating the area under grain crops as an example. China does not have the condition of ample arable land. Nor is China capable of rapidly increasing grain production on a large scale. We will encounter insurmountable difficulties even if we seek to increase or decrease the area of grain field by a mere 10 percent. Also for the next several years, we do not foresee any possibility to break away from the situation of a precarious balance in grain supply. With this background in mind, we must carefully protect the production and supply of grain in China.

"Theory of Grasping Commercial Grain." Those who advocate this theory believe that the true essence in balancing the supply and demand of grain in China is not aggregate equilibrium, but an equilibrium between the supply and demand of commercial grain. As long as we pay attention to commercial grain, the problem is solved.

To put it in a nutshell, grain circulation is the circulation of commercial grain. If we achieve the balance between the supply and demand of commercial grain, we have indeed basically attained the strategic goal of achieving grain equilibrium. However, commercial grain and the grain needed for peasants' own consumption are not independent. They are interdependent and transferable. Districts in which commercial grain is produced or producers of commercial grain may use the grain in stock for their own consumption in a lean year when there is no marketable grain for sale. In a bumper harvest year, they may provide a certain amount of commercial grain. Aggregate equilibrium of grain is precisely an overall strategic equilibrium attained by taking this situation into consideration. If we fail to meet the requirements of this kind of overall strategic equilibrium, we will at times fail to achieve a balance between the supply and demand of commercial grain. Therefore, at present and in the near future, most of the commercial grain in China is still a small amount of surplus grain provided by nearly 100 million peasants after their own grain consumption.

This situation makes the relation between commercial grain and the grain needed for peasants' own consumption even closer and the role of aggregate equilibrium in the supply and demand of grain even more significant than ever before.

"Theory of Relying on Grain Imports." Those who advocate this theory believe that if the supply of grain falls short of demand, we can import grain to make up the insufficiency.

One of the important trends for grain circulation in China from now on is to establish ties with the world grain market and adequately expand our grain imports and exports. Right now, to sell more grain to foreign countries, grain exporting nations vie with one another to provide large amount of subsidy to grain exports, while denouncing one another for doing this from time to time. The price of some of varieties of imported grain is close to or even lower than China's grain purchasing price. This indicates that in trying to strike a balance between the supply and demand of grain, China has the opportunity to take advantage of the world market to achieve its goal. However, China's correct principle on grain imports and exports should be "achieving self-sufficiency, making the best use of the situation and watching for the right time to import and export grain." Only by achieving self-sufficiency, we can accomplish our task with ease. Only by making the best use of the situation, can we use the world market to our advantage. Only by watching for the right time to act, can we reap full comparative benefits. For example, when the price of rice is notably higher than that of wheat on the world market, we may adequately export more rice, while importing more wheat. Thus we may make profits from the price differences between rice and wheat at home and abroad. This is apparently different in nature from the situation whereas we are forced to import wheat because there is a wheat shortage in China.

Grain has always been a special commodity of strategic significance in China. It directly affects the safety of the people and the nation. In tackling the issue of food, we must become self-sufficient. We must not rely on other countries in solving our own problem in this connection. Our past experiences have repeatedly proven that in addition to shifting agricultural crisis to other countries, some developed nations have always used their grain exports as a means to extort strategic resources and achieve all kinds of political goals. So-called "human rights", "democracy" and "arms sales control" can be used at any time as a pretext in using their grain as a weapon. When the world is faced with a lean year in grain production and the grain import nations badly need to import grain crops, grain export nations often take advantage of other nations' precarious position to raise grain price. During the period of world grain crisis from 1972 to 1974, the grain price index rose to a figure equivalent to 262 percent of the 1970 index. When grain was in great shortage in the world during 1980, the amount of grain imported into developing nations rose by 1.5 times as compared with the average amount of

grain imported between 1969 and 1971. However, these developing nations paid nearly six times more foreign exchange for the imported grain. All this shows that we must uphold our policy of achieving self-sufficiency in grain.

Three Grain-Related Pricing Policies Explained

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[Article by Zou Xiangqun (6760 0686 5028): "Diligently Implement the Three Pricing Policies Pertaining to Grain Production and Marketing"]

[Text] The grain issue has an impact on society's stability and our socialist modernization. The Party Central Committee and the State Council have always given top priority to the development of grain production. To meet the needs of the development of the socialist market economy and implement the important decision to stabilize agricultural production, the State Council convened a National Grain Production and Marketing Policy Announcement and Order Placement Meeting on 23-25 February that dealt with two major issues: First, it let the grain marketing regions place their orders directly with the grain producing regions: 29 provinces, autonomous regions, and municipalities signed 180 contracts to procure 15.6 billion jin of grain. In this way, the production regions would know about the quantity, type, and quality of grains the marketing regions want ahead of time, and they could enter into agreement with the peasants, so they would know "one year ahead of time" what they should do to meet the needs of the state and the marketing regions. Second, 1993's guaranteed grain price, the extra-price premium for chemical fertilizers and diesel that were linked to the sale of grain and cotton, the ceiling price for agricultural capital goods, the lowering of rates of the special agricultural and forestry product tax, and specific measures the state had adopted to aid the main grain-producing regions were announced. These measures were meant to protect the peasants' interests, mobilize their enthusiasm, and promote the steady development of grain production. This conference was a new approach to guiding agriculture. Primarily, it used economic information, economic policies, and economic means to guide the peasants to develop production and turn the state's macroeconomic goals into the peasants' conscious acts. It was a new step taken to push agricultural production toward the market as the planned economy made its transition to the socialist market economy, and it was also an important measure for solving the problem of separation of production from sales, for guiding the production regions and the peasants in adjusting their production-mix, and for balancing grain supply and demand. Premier Li Peng had high praises for the meeting. He said, it was a good meeting; it represented a new step in continuing the rural reform process. He also asked that one after another, the grain production and marketing policies be put into effect, and if the central government should pay for the

programs, it should do so, and if local governments should pay, they should do so; the peasants should not be short-changed. He asked that the decisions be carried out diligently after the meeting, so that they could begin to guide this year's agricultural production. He emphasized that agriculture is the foundation of the national economy and grain is the cornerstone; we should never forget that, nor should we ever abandon that concept, and governments at all levels must make this their most important task.

Among the grain production and marketing policies announced at this meeting, three had to do with prices: They pertained to the improvement of the method of honoring the "three linkages" in grain and cotton procurement, setting up a grain procurement guaranteed price system, and strengthening the price management of agricultural capital goods and setting price ceilings for major categories of capital goods. In drawing up these three policies, the State Commodity Prices General Administration, at the State Council's request, solicited ideas from the pertinent State Council departments and eight major provinces and prefectures and submitted the policies to the State Council for examination and promulgation. They have now been formally handed down. Only by studying the documents and immersing themselves in the study of the gist, the basis, and the basic points of these three pricing policies can the commodity prices administrations at all levels be good advisers to the government and guarantee their correct and successful implementation.

I. On Improving the Method of Honoring the "Three Linkages" in Grain and Cotton Procurement

On 20 February, the State Council handed down the "Circular on Improving the Method of Honoring the 'Three Linkages' in Grain and Cotton Procurement." It was decided that beginning from the 1993 grain and cotton production year, the method of honoring their "three linkages" would be improved. The guiding principles, criteria, and complementary measures were also stipulated.

A. The existing grain and cotton "three-linkage" policy and problems encountered in its implementation:

In 1987, the State Council implemented a "three-linkage" policy in grain procurement. Currently, for every 50 kilos of wheat and corn the state procures, it will supply the peasants with 10 kilos of standard chemical fertilizers at parity price, and for every 50 kilos of rice and soybean it purchases, it will supply 15 kilos of standard chemical fertilizers at parity price; the central government will share the expense with the local government equally. At the same time, in procuring these four types of grain, for every 50 kilos procured, the state will supply the peasant 1.5 kilos of diesel at parity-price, and the government will advance 20 percent of the payment based on the procurement price. Back in 1961, the State Council implemented an incentive system for those who sold cotton to the state. Today, for every 50 kilos of

cotton the state procures, the peasant can buy 35 kilos of parity-price standard chemical fertilizer and 2.5 kilos of parity-price diesel. Overall, this "three-linkage" policy for grain and cotton played an important part in preserving the peasants' enthusiasm and stabilizing grain and cotton production, and it should be continued. However, for various reasons, we have run into some problems during implementation. Primarily, the crops are of the wrong varieties, delivery is untimely, the supply is short, and the procedure is complicated. The peasants do not really reap the benefits of the supply of goods and materials sold to them at parity prices, which in turn hinders the implementation and undermines the prestige of the "three-linkage" policy. For that reason, the State Council has decided that "regardless of whether a region has decontrolled grain prices, the State Council's 'three-linkage' policy will not change, but the approach will be improved." Beginning this year, "the difference between the parity price and the negotiated price of chemical fertilizers and of diesel will be converted to cash, and a premium will be added to the procurement price of fixed-quota grain and cotton purchases to directly benefit the peasants."

B. The guiding principle, scope, and standard in improving the method of honoring the "three linkages" of grain and cotton:

To improve the way the "three linkages" are honored, we should abide by the guiding principle of supporting grain and cotton production, protecting the peasants' interests, and holding steadfast to the aid-agriculture policy. The State Council has decided that beginning in 1993, the incentive sale of goods and materials will be changed to a cash system by adding a premium to the procurement price. That is, the chemical fertilizers and diesel sold by the state (including central and local governments) via the "three-linkage" method to support grain and cotton production will be changed to a cash system from the in-kind system based on parity price. The difference between parity price and negotiated price will be paid directly to the peasants in addition to the procurement price. This improvement puts the tangible benefits the state intends for the peasants in the hands of the peasants, and it prevents any short-change, diversion, and misappropriation.

The criteria in using cash to honor the "three linkages" of goods and materials is that we must give expression to the principle of protecting the peasants' interests and also consider the government's financial ability. On the one hand, there should be no decrease in real benefits when the method of using in-kind goods and materials to honor the "three linkages" is substituted by the cash system; on the other hand, there should be no increase in financial burden to the state. Based on this principal, the scope of this cash method which adds a premium to the procurement price is limited to the original varieties and quantities of fixed-quota grain procurement and actual cotton purchase made by the state.

The standard for determining the premium added to the procurement price is premised on determining the difference between the parity prices and negotiated prices of chemical fertilizers and diesel. Since the parity prices for chemical fertilizers and diesel are set by the state but market prices vary with the time and the place and are more complicated, the key to determining the price difference lies in determining the average market price. In order that the nation's average market price can be assessed more accurately, the state should consider the time difference and location difference and reference the data bases provided by all quarters, and after making comparisons and analyses, it can choose the national average market prices for chemical fertilizers and diesel and in turn figure out the parity-negotiated price difference.

Based on the parity-negotiated price differences and the amount of chemical fertilizers and diesel to be linked to the state procurements, and after rounding off the numbers, it has been determined that the 1993 premiums added to the procurement prices of the "three linked" goods and materials are: For every 50 kilos of wheat and corn sold, the peasant is entitled to an additional 4.2 yuan (2.85 yuan from the central government and 1.35 yuan from the local governments); for every 50 kilos of rice, 5.2 yuan (3.175 yuan from the central government and 2.025 yuan from the local government); for every 50 kilos of soybeans, 5.5 yuan (3.475 yuan from the central government and 2.025 yuan from the local governments); for every 50 kilo of cotton, 12 yuan (paid entirely by the central government.)

Down payment for grain procurement will continue to be paid to the peasants at the time the grain department signs contracts with the peasants based on 20 percent of the procurement price.

C. Other necessary complementary policies:

After improving the method of honoring the "three linkages" in grain and cotton procurement by paying the peasants cash for the difference between parity-price and negotiated-price chemical fertilizers and diesel, the prices of chemical fertilizers and diesel that are linked to grain and cotton procurements should be decontrolled but the supply should remain the same. Parity-price chemical fertilizers and diesel other than those intended for the "three linkages" should comply with the original regulations. If changes are necessary, they must be studied and approved by those with proper price administration jurisdictions.

After the chemical fertilizers and diesel intended for the "three linkages" are made available to the peasants on a cash basis, in accordance with the principle that "money goes with the grain," the central government's funds earmarked for honoring the "three linkages" should be allocated to the commerce departments based on the original grain and cotton procurement quotas and standards. The commerce departments in turn should allocate the money to the grain and cotton procurement

departments prior to the actual purchases, and the latter should pay the peasants in full, together with the portion payable by the local governments, at the time of purchase.

After changing the method of honoring the "three linkages" in grain procurement, the portion of the expense funded by the localities and the money allocated by the central government to pay the premium on top of the procurement price should be paid to the peasants at the same time. The additional sales local governments add to the state-stipulated incentive sale of goods and materials should continue but should be handled in cash form; the parity-negotiated price difference should continue to be paid by the local governments. The State Council has asked the localities to actively raise funds to guarantee prompt and full payment to the peasants. The money should not be diverted for any reason or in any way.

D. Timing of the introduction of the cash method of honoring the "three linkages":

The State Council has decided that the new method of honoring the "three linkages" will begin in the 1993 grain and cotton production year. Under special circumstances, if continuation of the in-kind payment method is necessary, prior approval from the State Council is required.

II. On Establishing a Grain Procurement Protection Price System

The "State Council's Circular on Establishing a Grain Procurement Protection Price System" was promulgated on 20 February. The "Circular" stipulated the principle, scope, standards, and jurisdiction in setting grain procurement protection prices and established a grain hazard insurance fund system.

A. Setting up the grain protection price system is an important measure in the development of the rural socialist market economy.

At the Six-Province Agricultural and Rural Work Symposium held in Wuhan on 25 December last year, Comrade Jiang Zemin focused on today's agricultural and rural development and reiterated the basic guiding ideology that "agriculture is the basis of the national economy." He also made some very important guiding suggestions regarding the need to protect the peasant's interests, actively develop the rural socialist market economy, and strengthen leadership. Comrade Jiang Zemin said: "To develop the rural socialist market economy, first we must resolve the issue of drawing up an agricultural and sideline product pricing policy. This is the key to continuing rural reform." In the 15 years of reform, China has made good progress with grain price reform. With respect to the price management system, we have abolished the system of state monopoly of purchase and marketing and have basically established a

"market-set price" mechanism. Currently, 16 provinces (autonomous regions) and more than 800 counties have decontrolled grain procurement prices. More than two-thirds of commodity grain are regulated by the market. With respect to the pricing system, after several rounds of structural adjustments and enlivening of the system, in 1992, the average grain procurement price was 220.5 percent higher than 1978's. This is 43 percentage points higher than the average procurement price of other agricultural products which increased 177.5 percent over the same period. Today, the peasants can use the same amount of agricultural products to obtain 51.9 percent more industrial goods than before reform.

Overall, grain price reform has helped increase agricultural production and income and has played a very important role in mobilizing peasant enthusiasm in planting grain. But in recent years, selling grain has been a problem; market prices have been weak, and the increase in benefits to the grain-growers have slowed. The price scissors between industrial and agricultural products which had narrowed since reform have shown signs of widening again in the last three years, and this has been one of the main factors affecting the steady development of agricultural production today. Since several regional experimental points decontrolled the procurement price of grain last year, the nation's overall market price for grain has increased somewhat amid the stability, but prices of some products have remained fairly low in other regions. Based on the average prices in 245 country fairs, for 1992, the nation's country fair price for rice was 0.53 yuan per jin, down 4.14 percent from the previous year; wheat price was 0.38 yuan per jin, down 1.42 percent. But prices for certain grains fell sharply, even below cost, in some localities. In the wake of the development of township enterprises and diversified management, the comparative advantages in growing grain have decreased. In addition, the issuance of IOUs in grain procurement and the reckless taking over of farmland and other factors have led to a decrease in grain crop area. In 1992, the nation's total grain crop seeding area was 1.657 billion mu, 27.91 million mu less than in the previous year, or a reduction of 1.7 percent.

Grain is a strategic, unique commodity crucial to the national economy and the people's livelihood. Since decontrolling grain prices, how to curtail the adverse effects created by market regulation's spontaneity and use prices to protect peasant interests have been a pressing problem that urgently needs to be resolved amid the development of market mechanisms today. Internationally, formulating policies to protect or support grain procurement prices is an approach popular with many developed nations. To a nation that has a large population, little land, and low per capita grain consumption like China, to ward off sudden and natural disasters and prevent "cheap grain from ruining the peasants," it is especially important that we set up a grain procurement protection price system.

B. Principle in formulating grain procurement guaranteed price:

When formulating grain procurement guaranteed price, we must make sure that production cost is compensated while allowing for a reasonable profit. We must facilitate optimization of the mix of grains, and we must consider the state's financial capacity. As the nation's financial strength increases, we should gradually raise the protection price, and when conditions are right, we should make a transition to the support price.

The guaranteed price should let most grain-producers recover their production costs and enjoy a reasonable profit. If the guaranteed price is below cost, grain-growers will lose money, which will render this kind of protection meaningless. In 1993, in principle, we are using the existing fixed-quota procurement price as base price to determine the protection price level for the major grain categories. The actual implementation of the protection price must also be backed by the financial ministry's real ability to compensate losses due to risks. If the guaranteed price is too high, the state may not have the financial ability to pay. At the same time, to adapt to the changing consumption demands, we must optimize the mix of grains. For that reason, there should be some difference in the guaranteed prices of round-grain and long-grain nonglutinous rice.

C. The scope of implementation of guaranteed price in grain procurement:

Looking at China's current financial strength and storage capacity, grain procurement guaranteed price cannot be extended to all commodity grain; only some can be protected. Most foreign nations have adopted this method of partial protection. For this reason, guaranteed price should be extended to, first, the original varieties and quantity of the state's fixed-quota purchases; second, the state's special reserve grains. The state purchases 110 billion jin of fixed-quota grain a year. Currently even in localities where grain procurement prices have been decontrolled, grain purchase contracts must be signed with the peasants based on the original contracted amounts, and the guaranteed price policy will be implemented if market prices fall. The state's procurement of special grain reserve are made mostly in years of bumper harvest when market prices are low. It is an important measure for regulating and stabilizing the market by increasing and decreasing supply. This portion should be purchased at the stipulated price for special reserve. This year, the state will stock 10 billion jin of grain. So 120 billion jin of grain will be put under guaranteed price this year. In the future, if the scope of implementation of guaranteed price needs to be expanded, we can do so by adjusting the state's reserve. Localities are free to determine whether to apply a guaranteed price to grain which they purchase based on what they can sell.

D. Jurisdiction over the examination and approval of grain procurement guaranteed price in grain procurement and the announcement procedure:

Each year, the base prices used to set the nation's guaranteed price for the procurement of major grain categories will be determined by the State Commodity Prices General Administration together with the ministries of Commerce, Agriculture, and Finance. They must be approved by the State Council before being handed down. People's governments of the provinces, autonomous regions, and municipalities may set and announce their own local guaranteed prices which should not be lower, but may be higher, than the base prices handed down by the central authorities. When making grain purchases, if the market price is higher than the guaranteed price, the purchase should be made based on the market price; if the market price is lower, than purchase should be at the guaranteed price.

For the 1993 grain procurement guaranteed price, except for the early crop of long-grain rice which will be below the fixed-quota procurement price, the guaranteed price of other crop varieties basically will follow the state's contracted fixed-quota procurement price. Specifically, for every 50 kilos of northern winter wheat (based on intermediate grade,) 32.50 yuan; southern winter wheat, 31.00 yuan; corn from inside Shanghaiguan, 21.00 yuan; corn from outside of Shanghaiguan, 20.00 yuan; soybeans, 45.00 yuan; early crop of long-grain rice, 21.00 yuan; intermediate crop of long-grain rice, 26.00 yuan; late crop of long-grain rice, 28.00 yuan; northern round-grain rice, 35.00 yuan; southern round-grain rice, 31.50 yuan.

E. Establishing safety mechanisms for implementing the grain procurement guaranteed price:

To implement the grain procurement guaranteed price, we must set up a hazard regulation fund step by step; this is a necessary condition. At the Six-Province Agricultural and Rural Work Symposium, Comrade Jiang Zemin pointed out: "Upon decontrolling prices and the market for agricultural products, we must work hard to set up a state macroeconomic regulation and control system," and "we must set up protective mechanisms by gradually establishing a hazard insurance fund or regulation fund. Only in this way can we effectively deal with the risks and regulate the economy. When prices go up, we can sell at a low price; when prices tumble, we can buy at the guaranteed price. Such a mechanism should be set up as soon as possible. The important thing is to take the first step and go from there step by step, gradually perfecting the system." At the National Agricultural Work Television and Telephone Conference, Premier Li Peng also emphasized this issue. Acting in the spirit of the speeches delivered by leading comrades of the Central Party Committee, meeting the needs of the development of market mechanisms, following the example of several provinces and municipalities that have set up sideline product price regulation funds prior to reform, and learning from the usual practices of Western nations, when setting up the guaranteed grain price system this time, the State Council has decided to set up a grain hazard insurance fund system at the central level and the provincial (autonomous regional and municipal) level.

When the market price for grain is lower than the guaranteed price, purchases will be made at the guaranteed price; when market prices soar, grain will be sold at a lower price. The resulting price difference will be made up by the hazard insurance fund. The actual method of raising and spending the insurance fund and the examination and approval procedure will be decided based on programs proposed by the Ministry of Finance together with the State Planning Commission and the State Commodity Prices General Administration and implemented after being approved by the State Council.

Commodity prices administrations at all levels must pay attention to the setting up of the grain procurement guaranteed price system and must work diligently with the relevant departments to put the system into effect. They must comply strictly with the state's regulations, step up supervision and check closely to make sure that this important measure is fully implemented.

III. On Strengthening the Price Management of Agricultural Capital Goods and Setting Ceiling Prices for Their Major Product Categories

The "State Council Circular on Strengthening Price Management of Agricultural Capital Goods and Setting Ceiling Prices for Their Major Product Categories" issued on 20 February analyzed the upward price trend of the nation's agricultural capital goods and laid down the principle of strengthening price management of agricultural capital goods and setting ceiling prices for the major product categories as well as delineating the examination and approval rights and safety measures for implementing the ceiling prices.

A. The prices of agricultural capital goods need even stronger management:

Since price reform, the agricultural capital goods price management system and the pricing system itself have undergone profound changes. The pattern of state price control has been smashed by the introduction of the price management system that allows the central government, the localities, as well as the market to set prices. Currently, chemical fertilizers whose factory-exit price is set at the central level (including those produced at home and those imported by the central authorities) account for about one-fourth of the total supply of chemical fertilizers; the factory-exit price and the sale price of the rest are managed locally or regulated by the market. The prices of plastic groundcover and pesticides are managed locally.

In terms of the pricing system, there have also been some adjustments since reform. The 1992 price of agricultural capital goods more than doubled that in 1978 (approximately 110 percent). Overall, the magnitude of increase in the price of agricultural capital goods has been smaller than the increase in the procurement price of agricultural products. But as the price of an increasingly larger share of agricultural capital goods becomes decontrolled, pushed by higher cost and pulled by market prices, some agricultural capital good prices have begun to soar in

some localities. Moreover, because of sluggish sales of agricultural products in recent years, prices have retreated, in contrast to the rising agricultural capital good prices, and as a result, some localities have seen an increase in agricultural production but no increase in income; the peasants are upset. Looking at the future trend of agricultural capital good prices, with the introduction of major price adjustments with respect to coal, petroleum, and electricity, production cost will rise, and the price of agricultural means of production will continue to rise too.

To support steady development in agricultural production and encourage the peasants to add more inputs, we must further strengthen the price management of agricultural capital goods. Capital goods to be allocated centrally under state plans must strictly follow the state-set prices. We should set ceiling prices for major categories of agricultural capital goods that are not included in the state plans to prevent prices from rising excessively. We also need corresponding measures to manage the supply and circulation of key factors of production.

B. We should set maximum ceiling prices for extra-plan chemical fertilizers, pesticides, plastic groundcover, and agricultural-use diesel:

When the localities set ceiling prices for the major product categories, they may base their prices on actual situation and may add new but may not cut categories. When setting price ceilings, the idea is to protect the peasants' interests but also take care of enterprises' profit and consider market supply and demand situation, and they must abide by the principles of preserving the capital while allowing for a small profit, suiting measures to local conditions, and making timely adjustments. The first step is to make sure that the ceiling prices are no higher than the current market prices; the second step is that as production cost and market supply and demand change, ceiling prices should be readjusted. The ceiling prices should be set at different levels according to price management jurisdictions.

The extra-plan factory-exit ceiling prices of urea and ammonia nitrate produced by the 16 large chemical fertilizer enterprises managed by the central authorities are set by the State Commodity Prices General Administration. The maximum factory-exit price for urea is 1,000 yuan per ton. The extra-plan factory-exit ceiling price of ammonia nitrate manufactured by Jilin Chemical Company is set at 700 yuan per ton. Because the localities use different links to purchase their stock of goods, and because of different market supply and demand conditions, the maximum sales price of centrally allocated chemical fertilizers managed by the central authorities are set by the provincial, autonomous regional, and municipal governments. The maximum extra-plan factory-exit and sales prices of chemical fertilizers produced by medium-sized and small enterprises managed locally are set by the localities. In principle, the domestic allocation and delivery price of extra-plan chemical fertilizers imported by the central and local

governments and in border trade should comply with the maximum factory-exit price: The portion imported by the central government departments should follow the state-set price limits, and the portion imported by local departments should follow local price limits. If compliance with the price limits truly poses a problem, other prices may be approved by the commodity prices departments at the same level based on price management jurisdiction.

The state has put 7.54 million tons of agricultural-use diesel under its plans. Currently, about 8 million tons are left outside of state plans. As the method of honoring the "three linkages" changes, another 1.73 million tons of parity-price diesel will be available at negotiated price. The central authorities have jurisdiction over the management of diesel prices. The price of planned diesel is set by the state. As for the factory-exit price of extra-plan agricultural-use diesel, because it is difficult to distinguish agricultural-use and industrial-use diesel, if there is a set maximum factory-exit price for agricultural-use diesel while market price applies to industrial-use diesel, then agricultural-use diesel will become scarce because of the low price. Therefore, we should not set maximum factory-exit price for extra-plan agricultural-use diesel but may set a sale price limit. Considering the differences in purchase prices and channels and transportation and miscellaneous costs, it will be difficult to set a national sales price limit. Therefore, the maximum sale price for extra-plan agricultural-use diesel should be set locally based on local conditions.

Local authorities have jurisdiction over the price management of pesticides and groundcovers. The maximum factory-exit and sale prices of extra-plan pesticide and plastic groundcover should be set locally according to price management jurisdictions and local conditions.

C. Safety measures for implementing maximum prices:

The State Council has asked that once the central and local authorities have announced the price limits for major categories of agricultural capital goods, the departments and units must comply with them diligently. If existing prices are higher than the ceiling prices, they should be lowered, and if they are lower, they should be kept at the current level. If adjustments are truly necessary, changing the state-set price limits must be approved by the State Commodity Prices General Administration; changing local-set price limits must be approved by local commodity prices administrations. Because of rising raw materials, fuel, and energy prices, the production cost of agricultural capital goods is expected to rise too, and if the price ceilings are not adjusted in time and the producers should incur losses as a result of the imposition of price ceilings, the remedy may come from the Ministry of Finance in the form of profit tax reduction or exemption or financial subsidies depending on the enterprises' jurisdictional relationships.

D. Strengthen the management of agricultural capital goods:

We must recognize the importance of strengthening the price management of agricultural capital goods from the high point of supporting agricultural production, stabilizing the rural society, and protecting the peasants' interests.

We must strengthen the price management of agricultural-use electricity. Currently, 46.4 billion kwh of electricity are attributable to farm-use (including agriculture, forestry, livestock, sideline production, fishery, and the processing of agricultural products.) This includes 22 billion kwh used in farm drainage and irrigation. The state sets the electricity rate, averaging 0.087 yuan per kwh, including 0.02 yuan that goes to the power plant construction fund. However, management is chaotic in some localities: they apportion funds, gather funds, and collect fees arbitrarily; some localities charge more than 1 yuan per kwh. In recent years, more than half of the localities have rectified the way rural electricity prices are set; more than 200 million yuan in illegal income has been found, and upon rectifying old practices, new agricultural-use electricity management methods have been established. Overall, in localities that have undergone rectification, rural electricity prices are more stable, and the result is good. These localities should review their experiences and amplify and perfect their electricity price management methods. Localities that have not rectified their practices should begin to do so and set up management methods as soon as possible. Commodity prices administrations and departments in charge of power generation should make checking the price of farm-use electricity the focal point of their work and rectify the phenomena of reckless price increases, reckless apportionment, and unreasonable charges.

The localities must diligently implement the "State Council's Circular on Strengthening the Price Management of Agricultural Capital Goods and the Setting of Ceiling Prices for Their Major Product Categories" and the "Circular on Strengthening the Administration and Management of Chemical Fertilizers, Pesticides, and Plastic Groundcovers" promulgated on 25 October 1992. They must diligently rectify order in the circulation of agricultural capital goods. Price administrations at all levels must work with the supervisory departments and the industrial and commercial administrations to step up supervision and checking. Those who are unlicensed or operating beyond their licensed scope must be shut down and their illegal income confiscated. Those who raise prices illegally, raise prices at every level, fail to impose the price ceiling, engage in illegal resale, or exact exorbitant profits, and those who sell inferior, counterfeit agricultural capital goods and cheat the peasants in other ways should be severely punished.

Today, the nation's price reform is moving toward the goal of establishing a socialist market economic system, toward accelerating the pace of changing the pricing mechanisms, and increasing the magnitude of structural

price adjustments. Under the circumstances, the State Council's promulgation of the grain procurement guaranteed price system, its changing the method of honoring the "three linkages" in grain and cotton procurement, and the implementation of maximum ceiling prices for extra-plan agricultural capital goods are important measures for promoting price reform, perfecting the market mechanisms, and perfecting the price regulation and control system. If we diligently implement these three pricing policies, it will have a very positive effect on promoting the steady increase in grain and cotton production and promoting the development of the rural socialist market economy.

Hebei Peasant Per Capita Cash Income Decreases

HK1609063293 Hong Kong ZHONGGUO TONGXUN
SHE in Chinese 1148 GMT 7 Sep 93

[Text] Shijiazhuang, 7 Sep (ZHONGGUO TONGXUN SHE)—A sampling survey conducted among peasant households in Hebei Province shows that the per capita income in cash for rural areas in the province is 370.72 yuan for the first half of this year, a decrease of 6.3 percent as compared with the same period last year. Of this income, 129.29 yuan is derived from sale of agricultural products, a decrease of 14 percent as compared with the same period last year.

The main cause of the decrease in Hebei peasants' income lies in the decrease in agricultural income. In this province, 70 percent of the peasants' income is derived from agriculture. Since the beginning of this year, in Hebei Province, the margin of increase in procurement prices of farm and sideline products has been less than the margin of increase in the prices of capital goods for agricultural production, resulting in a widening price difference in the exchange of agricultural and industrial products, hence a decrease in peasant income. For example, in the first half of this year, the portion of Hebei peasant income derived from the sale of farm products is estimated to have decreased by 261 million yuan; in contrast to this, peasant outlay on production is estimated to have increased by 434 million yuan over the

same period last year. Based on the above revenue and expenditures estimates, for the first half of this year, Hebei peasant net income derived from agriculture has decreased by 695 million as compared with the figure for the same period last year.

Shandong Reports All-Time High in Wheat Output

SK1309061493 Jinan DAZHONG RIBAO in Chinese
31 Aug 93 p 1

[Excerpt] [passage omitted] According to the information officially released by the provincial government recently, Shandong's wheat output totaled 20.25 billion kg in 1993, exceeding 20 billion kg for the first time in our history and ranking first in the country for the third year in succession. The average per-mu yield of the province was 325 kg. In 16 counties, cities, and districts, the average per-mu yield exceeded 400 kg; and in Shouguang and Huantai, it exceeded 450 kg. Twelve of the 17 cities and prefectures of the province hit an all-time record in their summer grain output.

The output of more than 20 billion kg meant that Shandong's summer grain output had been greatly raised on three occasions since the 1980s. In 1980, Shandong's wheat output was merely 7.66 billion kg. It increased to 12 billion kg in 1983, up 57 percent. In 1986, it reached 15.6 billion kg, up 30 percent from 1983; and the 1993 output again increased 29.8 percent over 1986. In the short period of 13 years, the per-mu yield of the province rose from 139 kg to 325 kg, and the per capita share from 105 to 237 kg. [passage omitted]

Gansu Sets New Record in Summer Grain Output

HK1609103993 Lanzhou Gansu People's Radio
Network in Mandarin 2300 GMT 11 Sep 93

[Text] According to figures carried in GANSU RIBAO on 2 September, Gansu has reaped a bumper summer grain harvest this year, totaling 4.75 billion kg, an increase of 948 million kg, or 24.9 percent, over 1992 and setting a new record.

Preface to Banned Book *Disaster of Leftism*
93CM04384 Beijing ZHONGGUO ZUOHUO
[DISASTER OF LEFTISM] in Chinese Feb 93 pp 1-7

[Preface by Yue Jianyi and Zhang Dening: "Preface to the Book *Zhongguo Zuo Huo* (Disaster of Leftism in China)"]

[Text] The sky is blue, and the land is yellow.

Coming from the oldest darkness in the Orient, starting from sparks, and coming from the allegorical misery suffered by the race with sun-colored skins, the CPC marched out of the desolate and cold wilderness, fought bloody battles in which one group followed another in charging forward, and finally entered the place of metal-like splendor.

Listen. The whistling sounds of wind and rain are the footsteps of a generation of explorers who have held on to their convictions.

But nature has its laws; the same historical period saw people of different qualities and both successes and failures. Thus, there is a great deal of lamenting, as one has to recall the past events even if one does not want to do that.

In 1927, Qu Qiubai's putschism resulted in a leftist disaster.

In 1930, Li Lisan declared that the final worldwide class battle was coming soon, calling for a general strike and national insurrection. As a result, in the first half of that year alone 58,500 people were arrested and 6,220 people were killed.

In 1931, Wang Ming suddenly became the leader of the CPC; he was even more left than other leftists. As a result, blood flowed and became a river. Almost all the Red base areas were lost.

In 1930-1934, the base areas conducted large-scale campaigns to eliminate counter-revolutionaries, resulting in tens of thousands of unjust, framed, and wrong cases. Countless numbers of Red Army soldiers and officers as well as founders of the Soviet areas were murdered by their own comrades. The indiscriminate killings and arrests bordered on madness. As a result some army corps had almost no party and political cadres left.

In 1942, the "Rescue Campaign" was launched during the Yanan rectification. For a time, "KMT agents," "Japanese spies," "CC agents," "Fuxing Society members," "traitors to China," "turncoats," "Trotskyites," "Red Flag Party members," and "bad people" were everywhere. Illegal interrogations went on everywhere, and people were induced and forced to make confessions. Kang Sheng said: Of the party member cadres who have come to Yanan, 70-80 percent are politically unreliable.

In 1951, the motion picture "The Story of Wu Xun" was criticized and denounced.

In 1957, over 550,000 people were induced to air their views and then branded rightists. Countless numbers of other people also suffered a great deal as a result.

In 1958, people in Xushui County declared that they had entered communism, causing a worldwide sensation and ushering in the Great Leap Forward during which 100 million people smashed their cooking pots, tore down their houses, and destroyed forests, in order to make steel in a big way. Several hundreds of millions of people launched high-yield "satellites," with the highest yield claimed being that of over 824,500 jin per mu. No one asked questions concerning such unprecedented absurdity.

In 1959, Peng Dehuai, a marshal of the republic, was dismissed from his office because he had spoken for the people. Purges were carried out in the military, and the restrictions on persecuting rightists were lifted again, resulting in over 10,000 people being persecuted.

In 1959-1961, the Great Leap Forward caused calamities, with the crying of starving people being heard across China. "Unnatural deaths and the decline in births" during the three years caused the population to be over 40 million less than it should have been; direct economic losses amounted to 120 billion yuan.

In 1962, the novel *Liu Zhidan* implicated 10,000 people. As a result, flowers withered in the ideological and cultural spheres.

In 1963, Yang Xianzhen was persecuted because of issues of philosophy. All those who had relations to him were implicated; thousands of people were denounced publicly, demoted, sent to labor camps, imprisoned, or even executed as a result.

In 1964, the rural "four clean-ups" campaign resulted in countless numbers of innocent victims.

In 1966, an unprecedented profound, comprehensive, and cruel havoc began. Victims ranged from ordinary people to national elites, founding heroes of the state, and military commanders; few of these people were spared. In ancient times, there were the following cruel punishments: tattooing the face, cutting off the nose, cutting off the feet, castration, death, spanking, imprisonment, exile, cutting off the kneecap, beheading, hanging, severing the upper part of the body from the lower part of the body, displaying the cut-off head, execution in the thoroughfare, pulling the body apart with carts going in different directions, dismembering the body, burning, death by dismembering the body; and extralegal cruel punishments such as scorching, boiling a person alive, pulling out the tendons, death by pulling the body, death by spanking, peeling off the skin, suffocation. . . . Nevertheless, all these different kinds of punishments and cruel physical and psychological tortures were less cruel than the things used during the decade-long Cultural Revolution. The disaster of leftism was like a huge tide or a running mountain; it created things never heard of in history. As a result, those alive lost their souls; those

dead were deprived of all their dignity; the seven emotions were destroyed; the six sensual desires were suppressed; human nature was made something abstract; there was poverty in terms of both the soul and the body; every day became a new day of suffering; self-destruction was as difficult as survival; human beings became the living creatures that human beings feared the most; people lost their heart; all hope was lost; there was not a single ray of star light amidst the darkness of the night; promise became betrayal; being an informer meant being loyal; blood submerged the red color; tears made the sea swell; the ancient continent became desolate and mad; crisis became the story told in the Orient. Finally, the people were no longer silent amidst the widespread silence, and great noise began to be heard from under the ground.

In 1977, the "import-based leap forward" brought about another episode of trying to do things "not appropriate in the given stage"; and the theory of two "whatevers" was put forward.

—Is all this an apocalyptic memorandum?

—Is all this a warning for the nation?

—Is it because profound awakening can only come out of the most cruel gestation process?

—Is it because there are no competent people among the descendants of Emperor Yandi and Emperor Huangdi so that they cannot but suffer wanton havoc?

If it is said that there are no competent people, why have there been good and bad periods replacing each other throughout history? This is saddening!

If it is said that there are competent people, why have things not turned into their opposites after reaching the extreme in the course of changing events? This is lamentable!

Is this the nation which has so much civilization, so many epics, and so many loyal and talented people? So many dreams that would not be fulfilled have arisen in the bloody sky. The blank land has enchanted so many people, including those who have noble ideals, those who want to create effective government, those who are concerned with national affairs, those who intend to achieve progress, those who have unique skills, those who can detect everything, those who can control the overall situation, those who would boldly explore, those who would strive to get the great treasure. . . . But there would be suspicion, jealousy, and persecution; as a result those people would be demoted, imprisoned, and exiled, or join the underworld; their life would become the hell from which they would not be able to get out. They would have to endure wrongly imposed punishments and end their lives in anguish. Across the land, gold has lost its luster, while rotten wood has come to be honored. Insects can multiply, but human talent is not valued at all. As there has been an information explosion overseas, with knowledge, science, and technology being updated,

overseas Chinese have won all the glory and become heroes around the world. In the United States alone, overseas Chinese account for one-fourth of the 120,000 first-class scientists. But in the meantime, Heaven is laughing at the absence of talent in their ancestral land. Thus, trained personnel are both left unused and in very short supply; while there is shortage, there is also a great deal of waste, or even a brain drain. Thus, manual labor and mental labor are remunerated in a way which is opposite to what should have been the case; the intellect is moaning. Thus, an era which should have produced great masters is almost blank. Thus, splendid China cannot escape the punishment of history; the population crisis, ecological crisis, pollution crisis, civilization crisis, belief crisis. . . have come one after another. Thus, a nation's bad character has got enhanced. Thus, it is almost the case that the nation has got a new, unfortunate character. Thus, people refuse to reflect on their own mistakes, try to use words to cover up mistakes, and have become good at forgetting. Thus, there have emerged all those people such as those whose hearts are like still water, those who are apathetic, those who say the righteous things, those who hit a person when he is down, those who frame people, those who claim to be prophetic. . . . Thus, when all the sinologists of the human race are studying what has happened in China, our nation has dissolved her anger. There is no historical awakening. If so, where is the awakening relating to the future?

It is no wonder that the left is still tyrannizing the country and has launched repeated attacks on the reform.

It is wonder that people still have lingering fears, for they have been hurt badly again and again.

The great shame, the loud toll of the warning bell, and the great sorrow.

It is time to get out of misery.

It is time to say goodbye to tragedy.

It is time to squarely face the disaster of leftism.

Standing at the wound on the body of the nation, we can see more clearly:

Extreme leftism is a recalcitrant present-day manifestation of feudal ideas and tactics.

All the social critiques made by the extreme left have features characteristic of small-scale production.

The extreme leftism of the era of overthrowing the "three big mountains" may to some extent be understood as a manifestation of the intensification of class struggle; but since the outset of the decade-long havoc, there have been changes and developments. Extreme leftism has provided the strategy that some people use in power struggle and become means that some people use to suppress dissent. They are frivolous and impulsive, but also experienced and cunning; they are ignorant but

unwilling to remain out of the limelight; they live in a way as required by their roles; when the face is scraped, a half pound of Marxism powder and cream will fall off; the blood red tongues always deliver big talk, falsehood, empty talk, rubbish, and ritual talk; while they assume a martyr posture, there is dirt, spider webs, and rotten things everywhere in the deep chambers of their souls.

Many of the extreme left are clowns, ruffians, and politicians who got into the CPC to seek their personal advancement. They understand very well the good strategy of "rather being left than right"; they simplify some theories, turning them into abstract concepts, dogmas, absolute ideas, and ideas resembling religious beliefs, and then make those ideas their idols, so as to sell their leftism, while planning in secret to destroy people. As a result, some achievements of science and human civilization have been made into things which are neither fish nor fowl; the isms are unlike real isms, and the theories are unlike real theories, resulting in innumerable misunderstandings and boundless resentment.

The extreme left injures the people in the name of the people; destroys beliefs in the name of beliefs; devastates science in the name of science; ruins the legal system in the name of the legal system; suppresses democracy in the name of democracy; damages society in the name of society; and ruins the reform in the name of reform.

In an effort resembling trying to perform a skin-graft or breast-enlargement operation on the Han Dynasty old lady in the Mawangdui tomb, the extreme left is trying to rationalize and beautify old things, so as to deprive the present of the right to move toward the future.

The extreme leftists are conservative in their theory, use despicable means, and are morally bankrupt; they are only concerned with their own interests, and want to maintain an obscurant, crude, and ineffective socialism which is noted for in-fighting and which commits mistakes repeatedly; they want the beautiful land to pay for their power, dignity, and decadence. They are going against the historical tide, and fear the demand for seeking truth from facts. Since the outset of the reform, they have been opponents to all the new phenomena, new concepts, new measures, new trends of thought, and are thus reactionary in nature.

The extreme leftists appear to be seeking no earthly pleasures and to be living in the heaven and out of this world; they not only pose as persons of the people but also pose as the guide for the people; they appear serious and unfathomable, and act in a stereotypical way, resembling figures in dramas; thus, they are very hypocritical.

The extreme leftists drive the fish into deep waters and the sparrows into the thickets; they are very partisan and claim that only they are the leftists; they indiscriminately put large and small labels on dissenters, and hit dissenters with thick and thin clubs, exaggerating the significance of matters and acting in an unscrupulous, cruel and autocratic manner. They often persecute people in

such a way as to make those people hover between life and death. Thus, they are a very exclusive group.

The extreme leftists are besieged on all sides; they understand that they will win or lose together; they know that the end is coming, but do not dare to repent; thus they are fighting with their back to the river. They are putting up a last-ditch struggle, relying on the old traditional forces and traditional feudal culture. Thus they are very obstinate.

The extreme leftists have committed enough evil deeds and created enough havoc; thus they are utterly isolated. Wherever they go, they are looked upon with great contempt. When in front of people, they stride forward with their chins up and appear to be as proud as bulls; when people are not around, they become dazed, their eyes misted, and feel empty, sad, miserable, and mournful; they are frightened by all truthful statements and reports, and have become pessimistic, despondent, and fatalistic, but refuse to admit; looking around, they find no intimate friends, and are thus like solitary ghosts or lonely people. Thus they are all alone.

The extreme left has profound or various relationships to such phenomena as unnecessary formalities, rigid government policies, the tendency to be self-important, red tape, formalism, idling of personnel, using public office to promote private interests, excessive amounts of documents and meetings.

The extreme left trend of thought has been the most important inner root of all the miseries suffered by the Chinese nation in the modern era.

We would like to express our gratitude to the author who has written this book, by working hard and travelling day and night so as to collect, check, and review the materials. The book depicts the history of the disaster of leftism, thereby giving history truthfulness. Out of a profound sense of responsibility, the author has dedicated to readers this over 400,000-character panoramic long report—*Zhongguo Zuohe* which is now published for the first time. There are unavoidably errors and omissions, but it is a book which faces history squarely, and which emphasizes the original facts and original situation. Herein lie the most important character of the book. Only in this way will it be possible to make readers join us in an effort to profoundly review the real situation in the past, and to explore, in history, the historical development of the disaster of leftism and the nation's past explorations, mistakes, pains, and limitations, so as to warn and awaken ourselves and to provide later generations with food for thought. As specially invited editors, we have put editor's notes before each chapter so as to make the book more complete. Now, as we have finished all the work at hand, we keenly remember the extensive support and assistance given by the relevant organizations. We would like to express our gratitude to the Party History Research Center of the CPC Central Committee, the Party Literature Research Center of the CPC Central Committee, the party style education office

of the CPC Central Commission for Discipline Inspection, the Chinese Academy of Social Sciences, and various experts and scholars.

People of ancient times said: "Enlightened people prevent disasters from happening; wise people think about troubles in the future. Knowing about winning and losing makes one capable of functioning in the world; knowing about survival and perishing makes one capable of distinguishing between good signs and bad omens." It was also said: "Alas! Disasters originate from fortunate happenings. The movements are slight and there are contradictory signs; but the causal relations are very clear. One gets warned after going through difficulties; in this way one can avoid disasters."

Without warning himself, how can one awaken himself?

Having no self-respect, how can one carry out self-strengthening?

Without reflections, how can one be reinvigorated?

Without a noble character, how can one have a noble prospect?

Without the bones being rich in calcium, how is it possible to break the horizon together with the sun of the new era? How is it possible to give life back to life, make humans human again, make creations again, creative in nature, and give spirit back to spirit, so that there will be growth amidst the noise made by pure gold?

So that thinking is no longer exiled, that the soul is no longer strangled, that convictions are no longer a bloody matter, that there is hope instead of despair, that we who were once children and our children are no longer imprisoned in terms of both the soul and the body, and that the country of one billion people is no longer a forgotten country on this most splendid planet in the solar system, let us link up our arms just as mountain ranges are linked up with mountain ranges and just as constellations are linked up with constellations, walk past the disaster of leftism, and move toward tomorrow.

Friends, take to the road! Wild flowers will get closer to you, and demonstrate their fresh beauty.

Friends, take to the road! The landscape behind us will become another round of wind and rain.

Friends, take to the road and wipe off the tears which are not yet dried up.

—We have written the passages above to encourage all of us and to serve as the preface.

Yue Jianyi and Zhang Dening

Deep in the night on 6 January 1993 at Jianguomen

Market Economy Fosters Journalistic Reform

93CM03834 Beijing ZHONGGUO JIZHE [THE CHINESE JOURNALIST] in Chinese No 6, 15 Jun 93 pp 13-16

[Article by Xu Renzhong (1776 0086 0112): "Market Economy Fosters Journalistic Reform"]

[Text] The east wind of the socialist market economy has blown open the door of spring with its myriad flowers and trees. The latest round of historic and profound reform has not only opened up an ever-widening brave new world for journalism, but has also raised new demands for continuing journalistic reform.

Analysis of New Situation

There are intimate ties between journalistic reform and the establishment of a socialist market economy even as they each have their own characteristics. Such is the new situation in journalistic reform today.

Journalistic reform and the establishment of a socialist market economy are linked in the following ways:

1. Journalism and journalistic reform must work hard on behalf of economic construction by driving the smooth development of a socialist market economy on a journalistic level. Economic work and economic restructuring, in turn, support journalism on an economic level and raise a new demand for reform.

2. Amid the restructuring of the economic system, journalistic units have solicited more advertising and started more enterprises and other revenue-generating business activities. In essence, this is the economic work of journalistic units in change; it will soon become part of the market economy. How journalistic units are organized, their labor and personnel practices as well as distribution methods also have been strongly influenced by the market economy in many ways.

3. The thinking and mode of conduct of the reporting and editorial staff of journalistic units are inevitably influenced by the concept and mode of conduct of the market economy in various ways, reflected directly and indirectly in journalism, in the training of an army of journalists, and in the approach toward journalistic reform.

The economic base is of decisive importance to society. The close ties between the restructuring of the economic system and journalistic reform has a major impact on journalism.

At the same time, the two have their own special characteristics.

1. They play different roles in social specialization. Journalism produces spiritual products and is in charge of reporting and shaping public opinion. Economic work turns out material products and is in charge of economic development. A newspaper comes with a price tag, which

makes it a commodity, but it is not entirely the same as eggs and clothes. Television and radio provide news free of charge; that is a world-wide phenomenon. Journalistic units have launched a range of income-enhancing business activities but their main responsibility is still reporting news and shaping public opinion. Unlike industrial and commercial enterprises, they by and large belong in the superstructure. Journalistic reform cannot be the same thing as restructuring.

2. They come under the direct guidance of different scientific principles. Economic restructuring is under the direct guidance of economic principles even though it is influenced, in some cases significantly, by the scientific principles of politics, law, education, and ecology. Essentially, though, economic principles must be considered the predominant principles for the restructuring of the economic system. Journalism and journalistic reform come under the direct guidance of journalistic principles. We must comply with the socialist journalistic principles with Chinese characteristics. Since journalism and economic development are each governed by a different dominant philosophy, their reforms display their respective distinctive characteristics.

If the market economy works properly, boosting the economy and energizing the market, it will give a strong impetus to scientific research work in physics, chemistry, and biology, but only in an external way by supporting and stimulating. The market economy has no effect on the internal principles of these disciplines. That is not the responsibility of the market economy. "Railroad police each takes care of a section." Scientific research, intermediate testing, and dissemination and application in such areas as electronic collision, the chemical combination of elements, and biotechnology must be carried out by experts in each field. This is precisely why China needs a large number of natural scientists.

The principles of the market economy also lend powerful support and impetus to journalism and other social sciences externally, along with some internal penetration, depending on the circumstances. From the perspective of journalism, whatever principles of market economy that seep into journalism must be carefully assimilated and modified based on the principles and characteristics of journalism. They are not to be superficially copied or duplicated but must contribute to the healthy development of socialist journalism. Economic laws cannot replace the basic laws of journalism. This is a point working journalists readily appreciate.

The Philosophy of Journalistic Reform

Journalistic reformers must study the new situation in economic reform carefully. In addition they must study the new situation in other reforms in earnest, identifying the correct social bearing and putting the characteristics of journalism to work.

1. They must overhaul their thinking by liberating themselves from the unscientific, distorted, and one-sided

interpretation of socialism. Understand in depth Comrade Deng Xiaoping's theory of socialism with Chinese characteristics and use it to guide journalism and steer journalistic reform. This is because journalism is distinctively ideological and all-embracing. News is broadcast or otherwise disseminated every day, so it has an enormous impact on economics, politics, culture, and all other areas. Journalistic reform is an inseparable and crucial part of building socialism with Chinese characteristics. At the same time, it must contribute to the construction of socialism with Chinese characteristics.

Comrade Deng Xiaoping said: "Socialism is not poverty. The essence of socialism is liberating productive forces, developing productive forces, abolishing exploitation, eliminating bipolarization, and finally achieving common prosperity. Build an advanced socialist spiritual civilization even as we build an advanced material civilization." He also pointed out: "Marry the universal truths of Marxism with China's concrete reality. Follow our own course. Build socialism with Chinese characteristics. This is our basic conclusion after reviewing our long historical experience." By expounding this string of scientific theories, Deng Xiaoping has refined Marxism and given birth to a body of truths that constitute a quantum leap in our understanding. It is critical to conscientious journalism that we use this system of truths as a standard in overhauling our thought. First, by overhauling our thinking, we can reaffirm our full faith in socialism. This belief is our driving force. If we in journalism lack this drive or if we are confused, our initiative will not be brought out properly. Use "overhaul our thinking" as the criterion in journalistic reform, instead of guiding journalistic reform by mechanically and one-sidedly copying journalistic theories from the West. Third, use the new body of truths as the basic theory for correctly understanding the myriad things in journalistic activities, making a clear distinction between right and wrong and enthusiastically reporting and spurring the development of a socialist market economy.

As a process, "overhaul our thinking" is not over yet. Practice is going ahead, understanding is deepening. Closely integrate the practice of journalism with the entire reform and open policy, deepen our understanding of the theory of socialism with Chinese characteristics, and stick to it as the theoretical base in journalism.

A related point: Understand the party spirit in journalism more thoroughly and adhere to it in the context of the new situation. Stop equating party spirit in journalism with one-sided, mechanical, dull, and dry reporting. Cut out empty political sloganeering and other stuff that leaves one unmoved. This is an important aspect of contemporary journalistic reform. At the same time, some people shy away from talking about journalistic party spirit for fear of being labelled. We cannot support the view that journalistic party spirit is obsolete. We must march in step politically with the CPC Central

Committee and abide by the socialist stand and viewpoint. This is the correct principle distilled from endless changes in journalism in the long course of history, an advantage to be perfected and furthered in reform.

Amid the explosion of news reporting in the world today, there are many factual news items which command general agreement. Nevertheless, news media with different political stands and viewpoints demonstrate such differences in their reporting. Last month an overseas newspaper carried a photo released by a news unit in China, but hell bent on expressing its stand and viewpoint and eliciting a particular public response, omitted the original caption and replaced it with something entirely different. As Engels said: "All newspapers which advocate getting rid of politics engage in politics. The question is how to engage in politics and what kind of politics."

2. Understand the socialist market economy correctly and search for a meeting point between the two.

The socialist market economy impacts journalism and journalistic reform heavily in many ways, so how we interpret the market economy assumes additional importance.

In the race for social economic development in the world today, the market economy has shown itself to be superior to the planned economy. At the same time, it must be recognized that market economies around the world come in all shapes and sizes. Japan is a market economy under government guidance. Germany has a social market economy while the United States boasts a free market economy. Even without being privy to the secrets of their internal policy-making and inner workings, we can readily see their differences. In addition, there are other nations which have followed a market economy for centuries only to be mired in a severe recession in recent years following a sharp decline in their economic standing. This shows that many conditions must be met before the market economy can operate properly.

The socialist market economy in China must make the most of the market's basic role, namely allocating resources, thus further liberating and developing productive forces. This is a magnificent epoch-making piece of reform that will fully mobilize mass participation and the initiative of all quarters. Clearly it is wrong to think that building a socialist market economy means practicing capitalism. Those who make such an assumption and therefore feel skeptical about or hostile to the socialist market economy, or equate the socialist market economy with capitalism, shaping public opinion accordingly, are in the wrong. Comrade Deng Xiaoping has said: "Whether three is a little more market or a little more planning does not essentially distinguish socialism from capitalism and vice versa. Both planning and the market are economic tools." Needless to say, there is foam in the waves, weeds in a fertile field. In the course of market maturation, it is inevitable for the good and the bad to be intermingled. Some irrationalities and even

corrupt capitalist stuff will appear, sometimes even blatantly, eg., drug-trafficking, prostitution, and other things with modern characteristics. But this is precisely what we need to crack down hard on. They must not be confused with a socialist market economy.

A top priority today is to understand the socialist market economy fully and search for a meeting point between it and journalistic reform diligently.

1. The law of value is the most fundamental law in a macroeconomy. News units must honor this principle in its operations and in distributing rewards and meting out punishments. When they make judgments, their criterion should be: "Does it help develop the productive forces of a socialist society, increase the overall strength of a socialist nation, and raise the people's living standards?" News reporting, in particular, must contribute diligently to accelerating economic construction in a variety of ways. Journalism should be mindful of the bottom line, but it must put social benefits above all else.

2. When it comes to the production, processing, and distribution of news, including the publishing of newspapers, we must study the new market supply-demand situation, including the latest changes and make proper adjustments and improvements so that journalism may flourish. Study the law of socialist journalistic supply and demand with Chinese characteristics. Make an earnest effort to understand the vast readership's needs and psychological changes and improve the production and supply of newspapers, including the application of modern technology in journalism. On the one hand, attach the utmost importance to the various demands of modern life on journalism. On the other hand, we must consider their propriety and benefits, at the same time influencing them with a view toward refining them.

3. Actively promote competition in journalism, including competition at home and abroad, treating it as a means of promoting personnel training and improving the quality and efficacy of journalism. Enhance our sense of competition and establish reasonable parameters of competition.

The establishment of a socialist market economy in China is a new and arduous piece of systems engineering. Things are going our way now, but we are still in the initial phase as far as large-scale implementation is concerned. There are many wildly variable factors. Many operating rules and institutions have yet to be established. Moreover, our market economy is a socialist market economy. There is a need to link it with the international economy, on the one hand. There is also a need to make it conform with national conditions, on the other. Journalistic reform must take into consideration all these factors if journalism is to better serve the development of a socialist market economy in multiple ways.

About Journalistic Reform

As far as the mix of ownership systems is concerned, economic reform in China aims for the long-term coexistence of various economies, including the individual economy, private economy, and foreign-funded economy, with public ownership remaining dominant. Are we to conclude therefore that there should be individual, private, and foreign-funded news organizations as well as publicly-owned news organizations? Such a conclusion is unwarranted. This is a major issue.

1. Journalism and journalistic reform must not only serve the restructuring of the economic system but also contribute to the perfection of the national people's congress system, multi-party cooperation under CPC leadership, and the Chinese People's Political Consultative Conference; to political restructuring aimed at creating socialist democratic politics; and to the development of a socialist spiritual civilization with its ideals, morals, culture, and discipline. All three are indispensable. Journalistic reform must be consistent with these three major pieces of reform and take it upon itself to promote all-round social progress. It cannot just take care of one while ignoring the others. To transplant to journalism the economic restructuring model lock, stock, and barrel has its limitations.

2. China's success in development in the last 15 years shows that the communist leadership not only can accommodate existing social productive forces but can also push them to reach new heights through reform and the open policy. Journalism under party leadership too can accommodate ever-growing productive forces. The fact that various economies have come about owes itself in part to the simulating effects of journalism.

3. Journalism must implement, report, and publicize expeditiously the party's line, principles, and policies. The actual operations in journalism must not depart from party leadership.

Comrade Deng Xiaoping said: "The purpose in reforming the leadership system of the party and the nation is not to weaken party leadership and dilute party discipline but basically to strengthen party leadership and tighten party discipline." The same applies to journalistic reform. Improve and strengthen the leadership of the party's journalistic work to make it stronger and more mindful of the art of leadership. Make full use of the role of the news media in the new era—serving as a bridge between the party and the masses—and improve to the utmost the management of news units, including the forms in which public ownership can take. Many arduous tasks remain to be done in these areas.

Reform the Content, Format, and Philosophy of News Reporting, Reform the Methods of News Gathering and Editorializing

What do news media report? How do the news media discharge their role of shaping public opinion? What effects do the news media have on the various levels? In what ways have they stimulated social development and overall social progress? All of that is closely related to the content of news reporting, an important realization of the special character and function of journalism. Thus reforming the content of journalism is substantive in nature. Accordingly it would be incorrect to perceive the reform of the content of journalism as mere tinkering. This kind of perception is bound to impede our effort in this area. Without reforming the content of journalism, it may be said, reforms in other areas will certainly be vague and lack substance. The success of journalistic reform mainly expresses itself in the role of journalistic content in society.

Reform of the content of journalism embraces a broad and diverse field. At the moment the most important thing is to report and publicize accurately, vividly, in depth and in a variety of ways new practices and innovations relating to the construction of socialism with Chinese characteristics, including the implementation of the party's basic line—revolve around economic construction, uphold reform and the open policy, and adhere to the four cardinal principles—and the latest goings-on in building a socialist market economy. Herein lies the key to the revitalization of the Chinese nation, to the well-being of 1.1 billion people of all nationalities. What is most needed here is fully reporting all kinds of inspiring new facts and new experiences that others can emulate and shedding light on new substantive conflicts, new lessons that we must be most vigilant about, and new concepts that will liberate our thinking, so on and so forth. Superficial, outdated, dull, stiff, one-sided, and generalized reporting as well as reporting on issues that are far removed from the masses and from reality must be reformed. Listen to the voices and demands in economic restructuring and other reforms. In what ways is journalism providing a good service? A poor service? In what ways is it falling behind? Readjust promptly.

The formats of journalism are the "shell" of its content. The philosophy of news reporting and the methods of news gathering, editorializing, and investigation permeate the entire process of uncovering and reporting news stories. Reform in these areas cannot be overlooked either.

Journalism is an arduous but essential enterprise. Comrades are welcome to criticize and correct the thoughts expressed above. When all is said and done, journalistic reform must take place as we liberate our thought, seek truth from facts, study the new situation, and solve new problems. Break new ground endlessly as guided by Comrade Deng Xiaoping's theory of building socialism with Chinese characteristics to better serve the people and socialism journalistically.

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